



Offshore Investment by Australian Firms: Survey Evidence

Commission
Research Paper



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Foreword

There has been considerable public discussion about the impacts of ‘globalisation’ and the role of governments in managing the process. The implications of offshore investment by Australian firms and the possible relocation of their headquarter functions have formed part of these broader discussions.

Given the lack of reliable empirical information on these issues, the Commission initiated a survey late last year to gather information about what motivates Australian firms to operate or relocate headquarters offshore, and the implications for Australia of offshore investment. It follows a similar survey conducted in 1995 for the Industry Commission’s inquiry into the *Implications for Australia of Firms Locating Offshore*.

This paper presents the findings of the new survey. In a number of important respects, these findings are at variance with commonly held views about the drivers and domestic implications of firms’ offshore activities.

The Commission is grateful to the Australian Chamber of Commerce and Industry, the Business Council of Australia and International Management Australia for helpful comments on the draft questionnaire, and to the Australian Bureau of Statistics for assistance in designing and conducting the survey.

Above all, the Commission extends its thanks to the many firms which took the time to participate in the survey.

Gary Banks
Chairman
February 2002

Contents

Abbreviations	IX
Key messages	X
SUMMARY	XI
1 Introduction	1
1.1 Background to the study	1
1.2 Concerns about offshore investment	2
1.3 Structure of the report	5
2 Trends in foreign direct investment	7
2.1 Global developments	7
2.2 Australian trends in FDI	9
2.3 Australia's investment experience in context	11
2.4 Summing up	13
3 Survey findings	15
3.1 Firms involved in offshore investment	15
3.2 Nature and location of offshore production	17
3.3 Factors influencing direct investment offshore	20
3.4 Effects of offshore investment	24
3.5 Headquarters relocation	27
3.6 Importance of the Australian regulatory environment to domestic growth	30
3.7 Summing up	32
A The Commission's survey	35
B Survey questionnaire	39
C Detailed survey tables	49
References	79

Boxes

1.1	Key concepts and definitions	2
1.2	Some theory on offshore investment	4
3.1	Calculation of the index of factors influencing direct investment offshore	21
3.2	Respondents' comments on regulatory impediments inhibiting domestic growth	32

Figures

2.1	Global trends in outward FDI flows and GDP	8
2.2	FDI and exports as a proportion of Australia's GDP	9
2.3	Industry composition of the stock of Australia's outward FDI	10
2.4	Composition of Australia's exports	11
2.5	International comparison of the share of outward FDI flows in gross fixed capital expenditure	12
2.6	International comparison of the share of outward and inward FDI flows in gross fixed capital expenditure, average 1996 to 1998	13
3.1	FDI by status of Australian headquarters	16
3.2	FDI by industry	16
3.3	Nature of offshore operations relative to operations in Australia	17
3.4	Location of offshore operations	19
3.5	Offshore investment by number of operating regions	19
3.6	Importance of commercial factors in influencing FDI decisions	22
3.7	Importance of government factors in influencing FDI decisions	23
3.8	Effects of FDI on investors' Australian activity	25
3.9	Proportion of offshore profits repatriated to Australia	26
3.10	Skills, technology and other benefits from offshore operations	27
3.11	Importance of commercial factors in influencing headquarters relocation decisions	28
3.12	Importance of government factors in influencing headquarters relocation decisions	29
3.13	Importance of the Australian regulatory environment in inhibiting domestic growth	31

Tables

2.1	National regulatory changes affecting FDI	8
3.1	Importance of government-related factors relative to commercial factors	20
A.1	Industry coverage of the survey	37
A.2	Overall response	38
C.1	Detailed survey response	51
C.2	Nature of Australian headquarters by FDI status of firms	52
C.3	Links of Australian organisations with foreign controlled groups by main global activity	53
C.4	Coverage of Australian organisations by main global activity and FDI status of firms	54
C.5	Links of Australian organisations with foreign controlled groups by direct investment relationship	55
C.6	Employment at Australian headquarters and other locations by employment size of Australian organisation	56
C.7	Employment size of Australian organisation by main global activity	57
C.8	Importance of commercial and government-related factors in influencing headquarters relocation decisions	58
C.9	Importance of government-related factors relative to commercial factors in influencing headquarters relocation decisions in the last 5 years	59
C.10	Regions that key headquarter functions were relocated to in the last 5 years or likely to be relocated to in the next 5 years	60
C.11	Business services sourced in Australia to be sourced offshore with headquarters relocation	61
C.12	Nature of offshore operations relative to operations in Australia by main global activity	62
C.13	Employment size of offshore operations by main global activity	63
C.14	Regions of offshore operations by main global activity	64
C.15	Importance of commercial factors in influencing decisions to undertake new FDI in the last 5 years	65
C.16	Importance of Australian government-related factors in influencing decisions to undertake new FDI in the last 5 years	66
C.17	Importance of foreign government-related factors in influencing decisions to undertake new FDI in the last 5 years	67

C.18	Importance of government-related factors relative to commercial factors in influencing decisions to undertake new FDI in the last 5 years	68
C.19	Effect of offshore operations on measures of Australian activity over the last 5 years	69
C.20	Proportion of profits from offshore activities repatriated to Australia over the last 5 years	70
C.21	Extent to which Australian firms have gained skills, technology and other benefits from offshore operations	71
C.22	Main direct investment options being considered for the next 5 years	72
C.23	Importance of commercial factors in influencing decisions to undertake new FDI in the next 5 years	73
C.24	Importance of Australian government-related factors in influencing decisions to undertake new FDI in the next 5 years	74
C.25	Importance of foreign government-related factors in influencing decisions to undertake new FDI in the next 5 years	75
C.26	Importance of commercial and government-related factors in influencing decisions to undertake FDI — summary	76
C.27	Importance of aspects of the Australian regulatory environment in inhibiting domestic growth by FDI status of firms	77

Abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACCI	Australian Chamber of Commerce and Industry
BCA	Business Council of Australia
BIE	Bureau of Industry Economics
FDI	Foreign direct investment
GDP	Gross domestic product
GST	Goods and services tax
HQ	Headquarters
IT	Information technology
IC	Industry Commission
IMF	International Monetary Fund
PC	Productivity Commission
TPA	Trade Practices Act
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development

Key messages

- With responses from 201 of Australia's largest firms, this survey provides a reasonable basis for assessing the reasons for, and the effects of, offshore investment by Australian firms.
- Offshore production is becoming more prevalent, with 50 per cent of respondents currently having, or planning, such investment.
 - However, relatively few Australian firms (only 4 per cent of respondents) are moving their *headquarters* offshore. That said, these are amongst the largest Australian firms.
- Commercial (or market-related) factors are more important overall than matters subject to government control in influencing decisions about *offshore production*.
 - Improved access to overseas markets is by far the most important commercial factor influencing decisions by Australian firms to produce offshore.
 - Although much less important, foreign and domestic tax regimes are next in line and the leading government-related influences.
- For those (few) firms involved in *headquarters* relocation, improved access to world markets and proximity to investors are the main motivations.
 - The Australian tax regime again emerged as the most important influence subject to government control.
- Australian mergers regulation did not rate as a major influence on respondents' decisions to produce or relocate offshore. However, for those firms that have relocated headquarters offshore, or are planning to do so, it was seen as the most important regulatory impediment to domestic expansion.
- Relatively few respondents reported a fall in their domestic activity or overall profitability as a result of establishing production facilities offshore. A larger number reported an *increase*, although a majority of firms reported 'no change' in their Australian activity.

Summary

The closer integration of world economies — commonly termed ‘globalisation’ — has been associated with a sharp increase in investment by firms in operations in other countries. Globally, such foreign direct investment (FDI) increased from 2 per cent of world-wide investment spending in the early 1980s to over 8 per cent in the late 1990s.

Inward FDI (that is, direct investment that originates from foreign sources) has been a traditional feature of the Australian economy. However, it has only been in the last decade or so that overseas investment by Australian firms has become significant. Nonetheless, by international standards, such investment is not high. For example, in the late 1990s, FDI by Australian firms as a proportion of gross fixed capital expenditure was markedly lower than that for Sweden, the United Kingdom and Canada, and only about a half of that undertaken by developed economies as a group. Moreover, many developed economies have experienced faster growth in their outward FDI than Australia.

The increase in Australian offshore investment has helped fuel the wider debate about the economic, social and other effects of globalisation. There is concern that offshore investment by Australian firms may not be in Australia’s best interests. For example, some consider that the establishment of offshore production units will be at the expense of firms’ activity and employment levels in Australia. Others challenge these views, contending that offshore investment by Australian firms generally benefits the economy.

The resolution of these (and related) issues has been hampered by a paucity of information. The Commission’s survey, conducted in September 2001, is intended to help overcome this shortcoming. It follows a similar survey undertaken by the Industry Commission in 1995. Consistent with the earlier survey, investment that does not provide Australian firms with a significant influence over the operations of overseas entities — that is, ‘portfolio investment’ — was excluded.

Who participated in the survey?

Just over two hundred of Australia's largest firms (50 per cent of the targeted sample) participated in the survey. These firms represent all business sectors in the economy and a high proportion of firms engaged in offshore investment. Consequently, the survey provides information which is reasonably representative of the views of all Australian firms that presently have, or are planning, offshore investment.

Ninety survey respondents indicated that they were already engaged in FDI. Approximately two-thirds had operations in more than one country, and sixty-six employed more than 1000 people at their offshore locations.

Fifty-six firms — just under 30 per cent of all respondents — were intending to undertake offshore investment during the next five years.

Why do firms invest offshore?

In principle, firms investing offshore need to possess a competitive advantage — such as an established brand name or superior marketing expertise — to overcome advantages typically enjoyed by local competitors in the host country (for example, greater familiarity with local laws and customs). And, where it is feasible to supply the overseas market by exporting or entering into licensing agreements with local firms, the potential returns from producing offshore would need to outweigh those from such alternative routes.

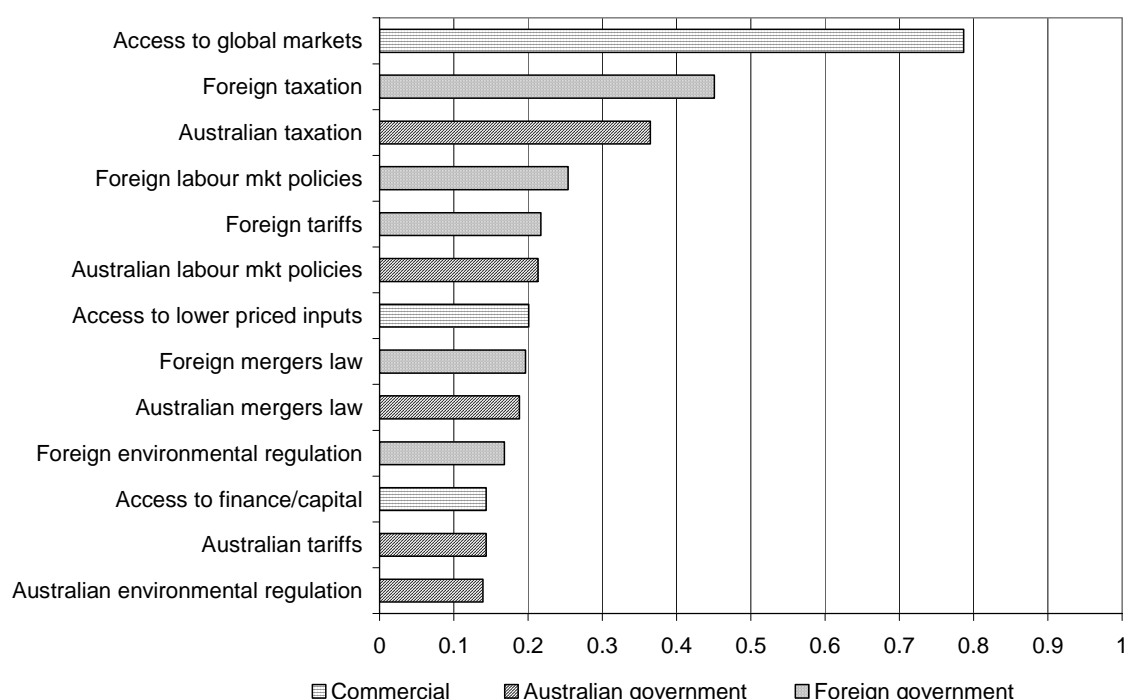
The attraction of different supply options is influenced by a range of matters which, for the purpose of the survey, were described as either 'commercial' or 'government-related'. According to the survey, commercial factors were generally more important to respondents than government-related factors in influencing decisions to invest in offshore production.

- International market access was the dominant commercial factor, with 70 per cent of firms with FDI designating it as 'important'. Access to lower priced material and labour inputs was ranked second, but well below international market access.
- The foreign and domestic taxation regimes were the highest ranked government factors and the second and third highest ranked factors overall. They were cited as being particularly important by those respondents planning FDI in the next five years. Around 30 per cent of those firms rated the Australian tax environment and foreign tax regimes as 'important' to their decisions to invest offshore.

- Although considerably less important than tax, labour market policies (both in Australia and overseas) and foreign tariff arrangements were the next most highly ranked government influences, just ahead of mergers regulation.

Respondents' ranking of the various factors influencing decisions to undertake FDI are illustrated in figure 1.

Figure 1 Factors influencing FDI by Australian firms
Index^a



^a The higher the index value the more important the factor (for a description of the index, see box 3.1).

Source: Productivity Commission survey.

What are the domestic effects?

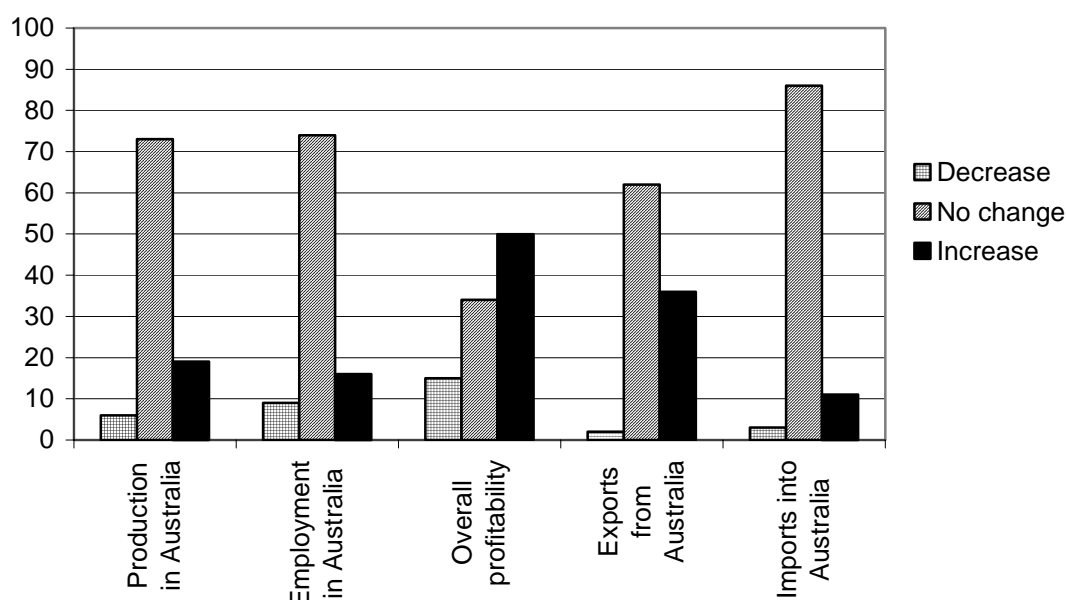
The survey reveals that the establishment of offshore operations typically does not reduce or displace local activity of investing firms. Indeed, the survey suggests that FDI is more likely to complement, rather than substitute for, domestic operations (figure 2). More specifically:

- while a majority of respondents indicated that their offshore operations had had no impact on their production and employment in Australia, those who considered that it had led to higher production and employment outnumbered by two to one those who considered that it had resulted in some contraction in activity;

- 50 per cent of firms stated that their offshore investment had increased their overall profitability, while a further 30 per cent or so indicated no change in profitability; and
- the involvement in trade of firms with FDI has increased, mainly through higher exports (around 35 per cent reported higher exports *as a result* of their FDI).

Other benefits associated with FDI identified by respondents include (in order of significance): increased availability of skilled foreign personnel; better access to production technologies; and improved marketing.

Figure 2 **Effects of outward FDI on firms' Australian activity**
Per cent^a



^a Percentage of respondents that have direct investment offshore.

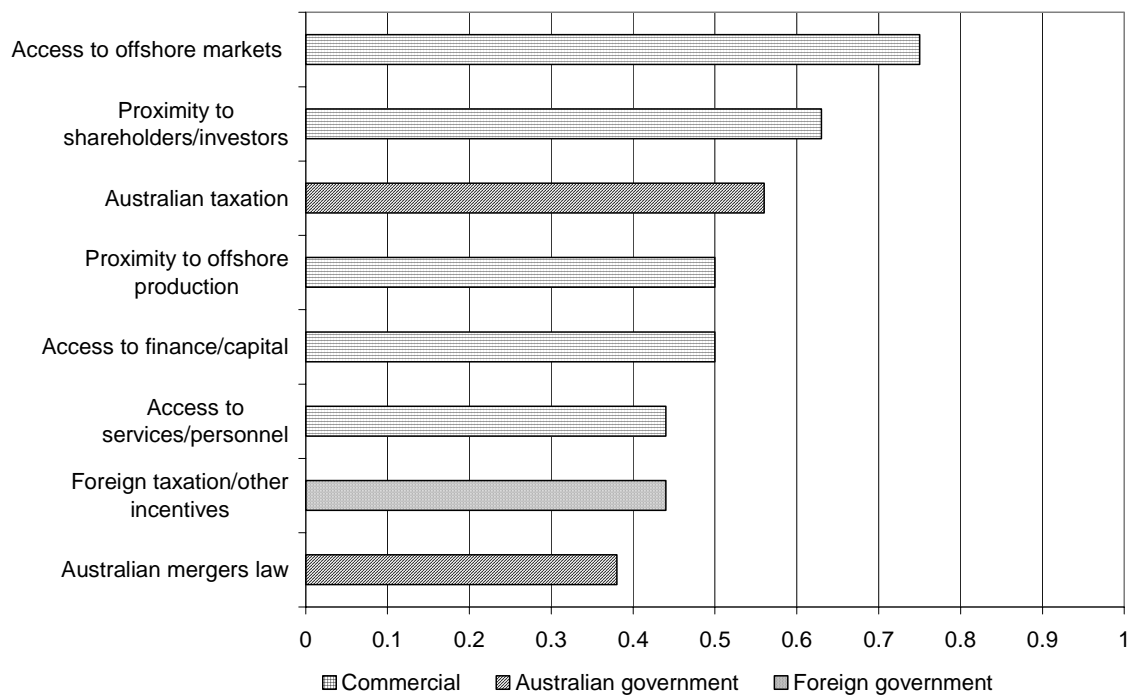
Source: Productivity Commission survey.

What factors influence *headquarters* relocation?

The survey suggests that headquarters relocation by Australian firms is an infrequent occurrence relative to local firms' participation in FDI. Whereas 100 firms (50 per cent of respondents) are engaged in or are planning FDI, only eight firms (4 per cent of respondents) have moved, or are considering moving, their headquarters offshore. (And only four have already done so.)

The major influences on relocation decisions were commercial factors. The most important of these were, first, to improve access to overseas markets and, second, to be closer to shareholders (figure 3).

Figure 3 Factors influencing headquarters relocation offshore
Index^a



^a The higher the index value the more important the factor.

Data source: Productivity Commission survey.

Although not as important as some commercial influences, matters subject to Australian or foreign government control — especially the tax environment — also influence decisions on headquarters relocation. Government factors were markedly more important for the four respondents that are considering moving headquarter functions offshore than they were for the four that have already done so.

Australian mergers law was ranked lowest among those commercial and government-related factors identified in the questionnaire as likely to influence decisions about headquarters relocation. (Only one respondent rated merger regulation in Australia as having a ‘high’ degree of importance.)

Respondents considering relocating their headquarters offshore indicated that some ancillary activity — such as certain accounting and legal services — would also be shifted offshore. However, given the many possible implications of headquarters relocation and the small number of firms involved, the survey did not collect

detailed information about its broader domestic effects. More detailed case studies and other research would be needed for this purpose.

Regulatory impediments to domestic growth

As well as seeking information about offshore investment, the survey asked firms about regulatory impediments to their growth in Australia.

In keeping with the findings about the motives for their FDI, respondents identified Australia's taxation regime and labour market policies as the aspects of Australia's regulatory environment that most inhibited their domestic growth. Mergers law and environmental regulations were rated the next most significant regulatory impediments.

However, for those respondents with or considering *headquarters* relocation, mergers regulation was rated ahead of taxation as the major regulatory impediment to their domestic growth.

1 Introduction

1.1 Background to the study

Over the last decade, there have been significant reductions in regulatory barriers to the movement of capital, goods, services and people between countries. Coupled with technological developments — particularly in communications technologies — this has contributed to the closer integration of national economies: commonly termed ‘globalisation’.

Globalisation is a very broad concept. Encompassing social, environmental and cultural matters, as well as economic issues, it has sparked wide-ranging debate, both in Australia and overseas. A central focus of this debate has been on the likely national impacts of globalisation and the role that governments, and government policy, should play in the face of the changes it heralds.

Against that background, this paper has a relatively narrow focus. It provides survey information to facilitate analysis of an aspect of globalisation that has attracted considerable attention in Australia over the last year or so: investment by Australian firms to establish production facilities or relocate headquarters offshore. The survey did not cover portfolio investment — that is, investment that does *not* provide the investor with a significant influence over the operations of the foreign business.

The survey, which was undertaken in September 2001 with assistance from the Australian Bureau of Statistics, attracted responses from 201 of Australia’s largest firms and covered all market sectors of the economy. As the respondents also account for a substantial proportion of Australian offshore investment, the survey provides information which is reasonably representative of the views of all domestic firms with offshore investments. The survey builds on a smaller survey undertaken in 1995 by the Industry Commission for its public inquiry on the *Implications for Australia of Firms Locating Offshore* (IC 1996).

Key concepts and definitions are outlined in box 1.1. Details about the design and conduct of the survey are in Appendix A.

Box 1.1 Key concepts and definitions

A number of concepts based on standard statistical usage have been used in the survey and this report:

Australian organisation is defined as all the enterprises/activities in Australia under common ownership or control;

Australian direct investment offshore (or 'foreign direct investment' (FDI)) is defined as investment in overseas enterprises in which the Australian organisation has a significant influence and owns not less than 10 per cent of the ordinary shares or voting stock (or equivalent); and

Australian headquarters is defined as the unit in Australia at which key strategic, policy and management decisions are made for the Australian organisation and its offshore operations.

In reports of direct investment flows, items corresponding to Australian direct investment offshore are variously termed 'outward foreign direct investment' (for example, the United Nations Conference on Trade and Development *World Investment Reports*) and 'direct investment abroad' (for example, in International Monetary Fund *Balance of Payments Statistics Yearbooks* and *International Financial Statistics Yearbooks* (IMF 2000a,b)). As appropriate, these terms are also used in this report.

1.2 Concerns about offshore investment

Offshore investment, or 'foreign direct investment', by Australian firms is not a new phenomenon. Indeed, the establishment of offshore operations by Australian companies dates back to the nineteenth century.

However, globalisation has increased the opportunities for investing offshore. For example, many countries in the Asia-Pacific region (including Australia) have removed or relaxed measures that formerly restricted foreign direct investment (for example, prohibitions on investment in key industries such as telecommunications) or discriminated against the operation of foreign-owned firms in favour of local businesses (for example, local content requirements).

As a result of these policy changes and certain other developments, there was a significant increase in offshore investment by Australian firms over the 1990s (chapter 2). Although such investment has typically been lower than direct investment *in* Australia by foreign firms, the increased outflow has raised concerns in some sections of the community.

- Some assert that offshore investment is being undertaken at the expense of domestic investment. They see it as adversely affecting domestic production,

employment, tax revenues and, in some circumstances, Australia's balance of trade. Others have challenged this view, contending that Australian offshore investment is generally associated with positive effects on the domestic economy (see, for example, BIE 1995 and IC 1996).

- More recently, the focus of the debate has shifted to a consideration of the likely consequences of the movement offshore of the *head offices* of some large Australian companies. In those (relatively few) instances where that has occurred, or is being mooted, it has generally followed the establishment by the companies of major offshore business units. Again, there are conflicting views. Some consider that the offshore relocation of a head office is largely symbolic, having little or no bearing on economic outcomes in Australia. Others fear that the movement of head offices offshore will lead to strategic decisions affecting Australia also being made offshore, to this country's detriment (the 'branch office economy' effect).

An important first step in assessing such concerns is to gain an understanding of the factors underlying decisions by Australian firms to invest offshore. At a theoretical level, the economic literature explores the possible sources of 'firm-specific advantage' which firms investing offshore must possess if they are to overcome the inherent disadvantages of competing in foreign markets (box 1.2). Further, reports in the mid-1990s by the Bureau of Industry Economics (BIE 1995) and the Industry Commission (IC 1996) provided some evidence on factors that influenced Australian firms' decisions to invest offshore rather than supplying such markets by alternative means (for example, by exporting or licensing production to an overseas producer). However, there is little recent information about the relative importance of those commercial and government-related influences.

The survey information presented in this report is intended to help fill this information gap, mainly by providing insights about the motives for firms investing offshore. Some information on the domestic effects of such investment is also provided. However, further research is needed to identify more precisely the effects on the domestic operations of the firms themselves and the economy more generally, particularly in relation to the effects associated with headquarters relocation. Given the small number of firms involved in headquarters relocation and the differences in the underlying circumstances, this issue might be pursued most appropriately using a case study approach rather than the survey method used for this study.

Box 1.2 Some theory on offshore investment

As a rule, firms establishing operations in foreign countries face inherent disadvantages relative to local competitors. For example, they will typically have less familiarity with local laws, customs and business practices. Accordingly, to be competitive they must possess some offsetting advantages — referred to in the economic literature as ‘firm-specific assets’. Sources of firm-specific assets include exclusive ownership of intellectual property and intangible assets such as superior management knowledge or marketing expertise (for example, see Graham and Krugman (1993) and Markusen (1995)).

However, possession of some firm-specific asset generally is not in itself sufficient to explain foreign direct investment. Another important pre-requisite is that the benefits associated with direct investment outweigh the benefits of supplying the foreign market by alternative means (for example, by exporting or by licensing production to a local firm). Two reasons why this may be the case are canvassed in the economic literature (for example, see Brainard 1997, Markusen and Venerables 1998, Markusen and Maskus 2001):

- first, there are traditional ‘factor proportions’ explanations, whereby firms integrate production vertically across borders to take advantage of different relative factor endowments between countries; and
- second, there are the newer ‘proximity-concentration’ explanations whereby firms expand production horizontally across national borders to take advantage of relative cost differences afforded by multinational/multi-plant operation and closer proximity to customers.

Of course, for some products such as certain banking, legal and communications services, potential supply options are limited. In such instances, the need for close proximity of producers and consumers often requires foreign firms to establish a commercial presence in the host country (Sampson and Snape 1985).

Where firms have various options for supplying overseas markets, a number of factors subject to control by governments influence firms’ decisions. These include taxation regimes, environmental and labour market regulation, mergers law, trade barriers and government incentive schemes. Such factors can either encourage or discourage offshore investment. For example, financial incentives provided by the host country may, other things being equal, attract investment by firms domiciled in other countries, whereas excessive regulation in the host country will discourage foreign direct investment. The relative importance of such policy influences, which varies between countries and markets, is an empirical issue which is not explored in any depth in the economic literature.

1.3 Structure of the report

To help place the Commission's survey in perspective, the next chapter briefly outlines global and Australian trends in offshore direct investment. Chapter 3 summarises the main survey findings. Details of the survey design and response rate, a copy of the survey questionnaire and tables setting out the detailed survey results are in the appendixes to this report.

2 Trends in foreign direct investment

Australia has traditionally been a *destination* for foreign direct investment (FDI) from abroad. Direct investment overseas *by* Australian firms was negligible until the mid-1980s. However, since then, it has become increasingly important.

To provide some context for the survey findings, this chapter provides an overview of global developments in direct investment, as well as summarising Australian trends.

2.1 Global developments

As noted in chapter 1, the removal of barriers to foreign investment has supported global growth in FDI. Of the 1019 changes in national investment regimes identified by UNCTAD as affecting FDI over the period 1991 to 1999, 95 per cent were deemed to be favourable to direct investors (table 2.1).

In developing and transition economies, a major thrust of reform has been to reduce restrictions on foreign investment in industries that previously were largely closed (such as petroleum, airports, communications, banking and insurance, and pharmaceuticals) (UN 2000). In developed countries where FDI regimes were typically more open, there has been further deregulation of activities in which foreign investment was previously limited (for example, electricity and gas).

Figure 2.1 highlights the increase in FDI flows in the 1990s. It shows that growth in FDI outpaced global GDP growth during the second half of the decade. In the late 1990s, FDI outflows accounted for over 8 per cent of total global investment spending — up from around 2 per cent in the early 1980s (UN 2000).

Table 2.1 National regulatory changes affecting FDI

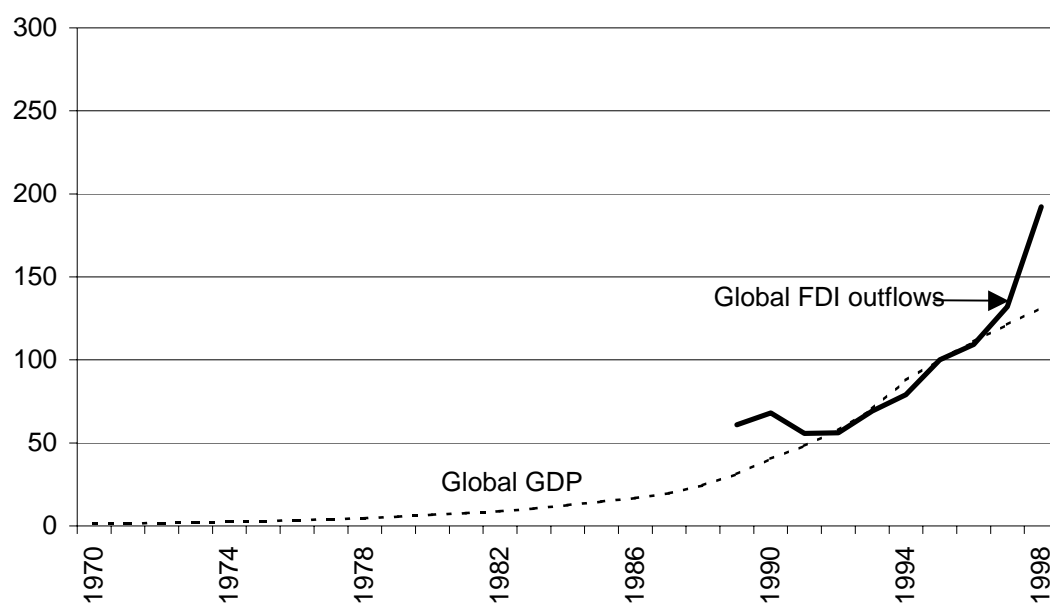
	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Number of countries that introduced changes to their investment regimes	35	43	57	49	64	65	76	60	63	na
Regulatory changes that were:										
more favourable to FDI	80	79	101	108	106	98	135	136	131	974
less favourable to FDI	2	-	1	2	6	16	16	9	9	61

na not available.

Source: United Nations (2000, table 1.3).

Figure 2.1 Global trends in outward FDI flows and GDP^a

Index 1995=100



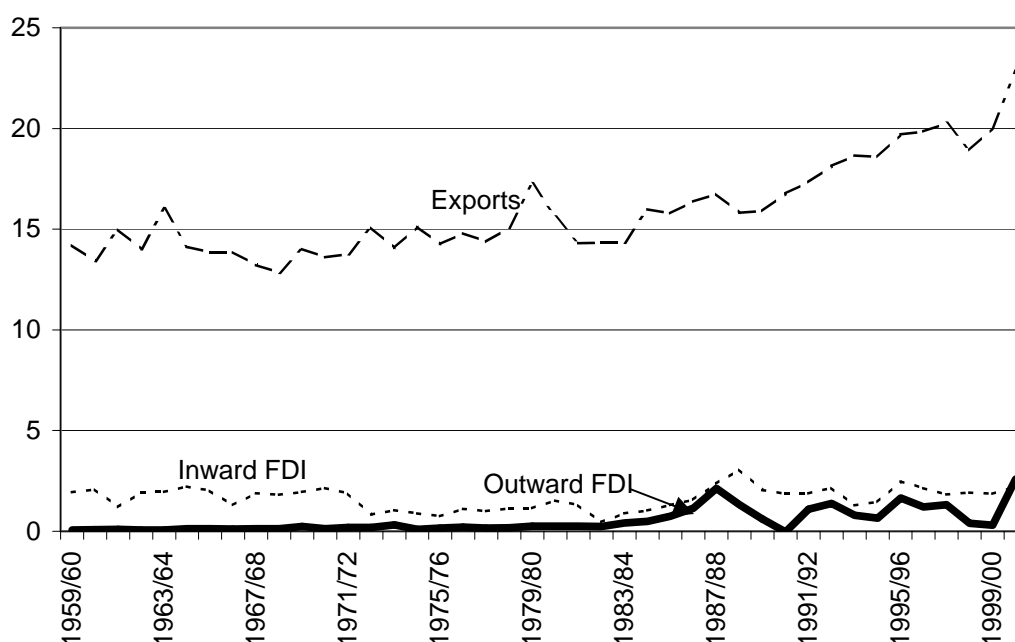
^a The indexes refer to the nominal value of gross domestic product (GDP) and FDI flows.

Sources: United Nations (2000); International Monetary Fund (2000b).

2.2 Australian trends in FDI

In the early 1980s, a range of reforms — including the deregulation of financial markets and the floating of the Australian dollar — helped create a more open and outward-looking environment for Australian businesses. Since that time, the relative importance of outward FDI by Australian firms has increased markedly. Indeed, in 2000-01, the value of outward FDI exceeded the value of inward direct investment for the first time (figure 2.2).

Figure 2.2 **FDI and exports as a proportion of Australia's GDP**
Per cent

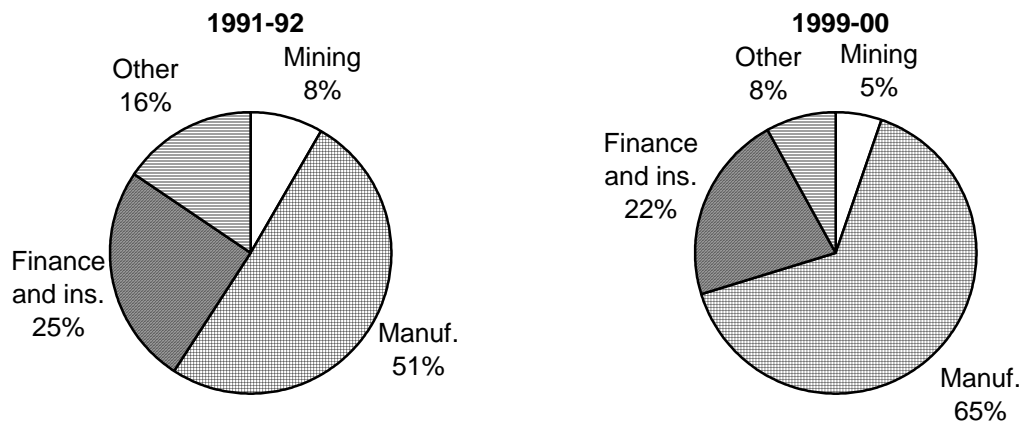


Source: ABS (Balance of Payments and International Investment Position, Australia, Cat. no. 5302.0, in *Econdata dX for Windows*, Time Series Statistics Plus, updated 31 October 2001).

Accompanying this increase in outward FDI, manufacturing firms increased their share of the stock of Australia's outward FDI over the 1990s (figure 2.3).¹

¹ The 'stock' of FDI is a measure of all such investment at a point in time. It reflects the accumulated effects of all previous FDI activity and the effects of exchange rate changes and other revaluations on the value of FDI. Stock data abstract from the substantial year-to-year variation that occurs in annual 'flow' data.

Figure 2.3 Industry composition of the stock of Australia's outward FDI
Per cent



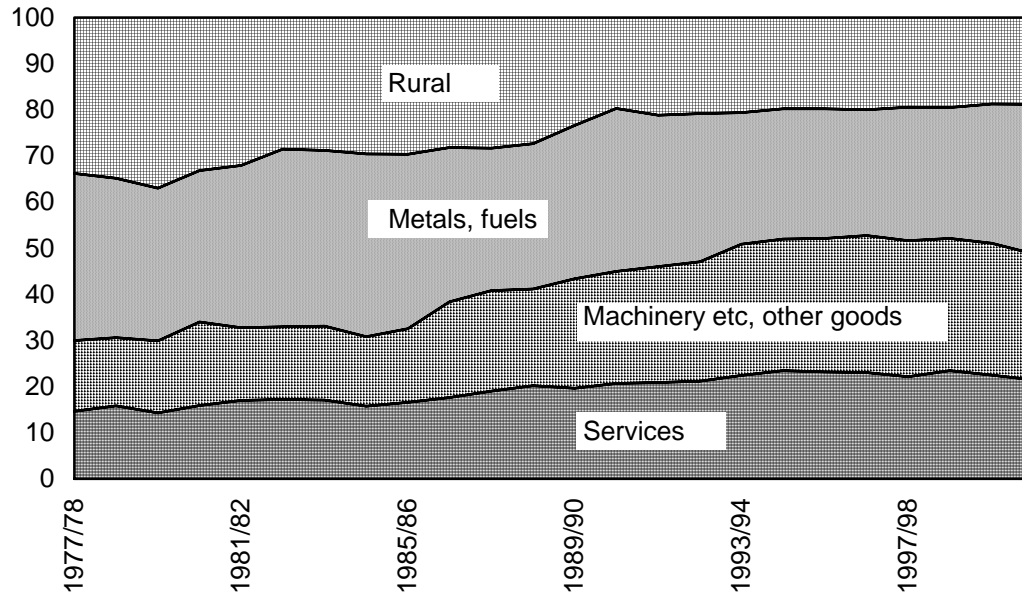
Source: ABS (*Balance of Payments and International Investment Position, Australia*, Cat. no. 5302.0; unpublished estimates).

Consistent with the increase in FDI, income earned from offshore investments by Australian companies also increased. In 1999-00, foreign-earned income was around \$8 billion — equivalent to about two-thirds of the income earned by foreign firms from their direct investments in Australia.²

There is a perception that direct investment is often at the expense of a country's exports. However, while outward FDI by Australian firms was rising during the 1990s, exports continued the upward trend that had commenced around the late 1970s (figure 2.2). Indeed, between the late 1970s and 1999-00 exports grew from around 15 to about 23 per cent of GDP. And while Australian offshore investment by manufacturers increased rapidly in the 1990s, the *share* of machinery and other manufactured exports in total Australian exports also increased — from 24 to 29 per cent (figure 2.4). As discussed in the next chapter, the experience of the survey respondents engaged in FDI is consistent with this economy-wide relationship between exports and offshore investment.

² Foreign direct investment income includes dividends and similar payments, plus reinvested earnings attributable to direct investors.

Figure 2.4 Composition of Australia's exports
Per cent



Source: ABS (Balance of Payments: International Trade in Goods and Services, Australia, Cat. no. 5368.0, in *Econdata dX for Windows*, Time Series Statistics Plus, updated 31 October 2001).

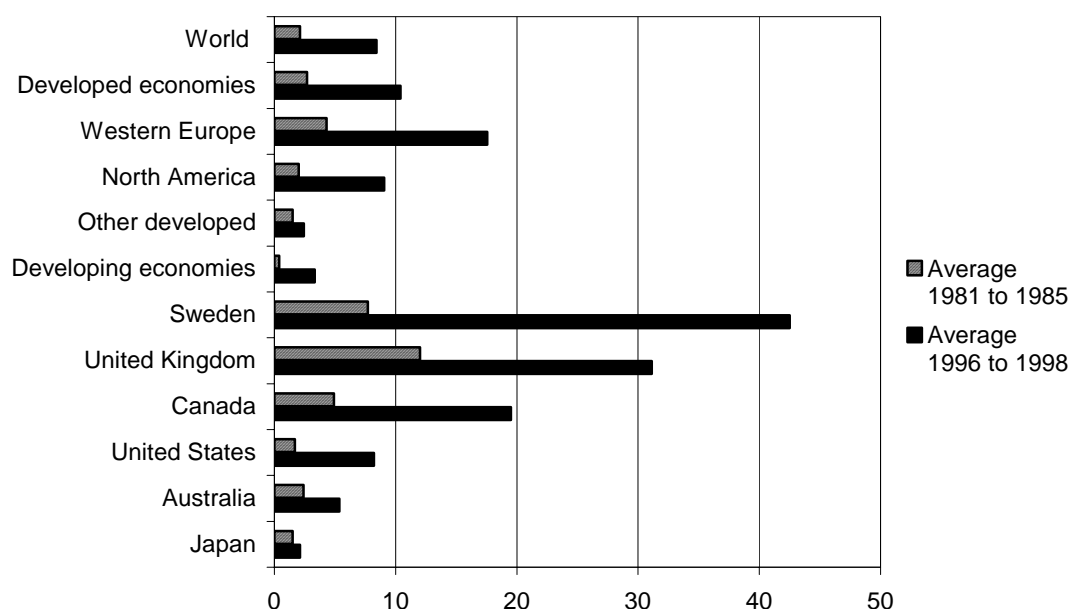
2.3 Australia's investment experience in context

Notwithstanding the expansion in FDI, Australia remains a relatively small player in the international investment community — accounting for around 0.6 and 0.4 per cent of global FDI inflows and outflows, respectively, in 1999. This is well below Australia's contribution to global income, which was around 1.3 per cent in 1999 (World Bank 2001).

Country data, adjusted for the different size of individual economies, provide a better basis for assessing Australia's FDI experience in a global context (figure 2.5). This disaggregation shows that, in the period 1996-98, FDI by Australian firms as a proportion of gross fixed capital expenditure was markedly lower than that for Sweden, the United Kingdom and Canada, and only about a half of that recorded for developed economies as a group. Moreover, although Australia's outward FDI has increased since the early 1980s, many other economies, particularly in Western Europe and North America, experienced faster growth.

Figure 2.5 International comparison of the share of outward FDI flows in gross fixed capital expenditure

Per cent

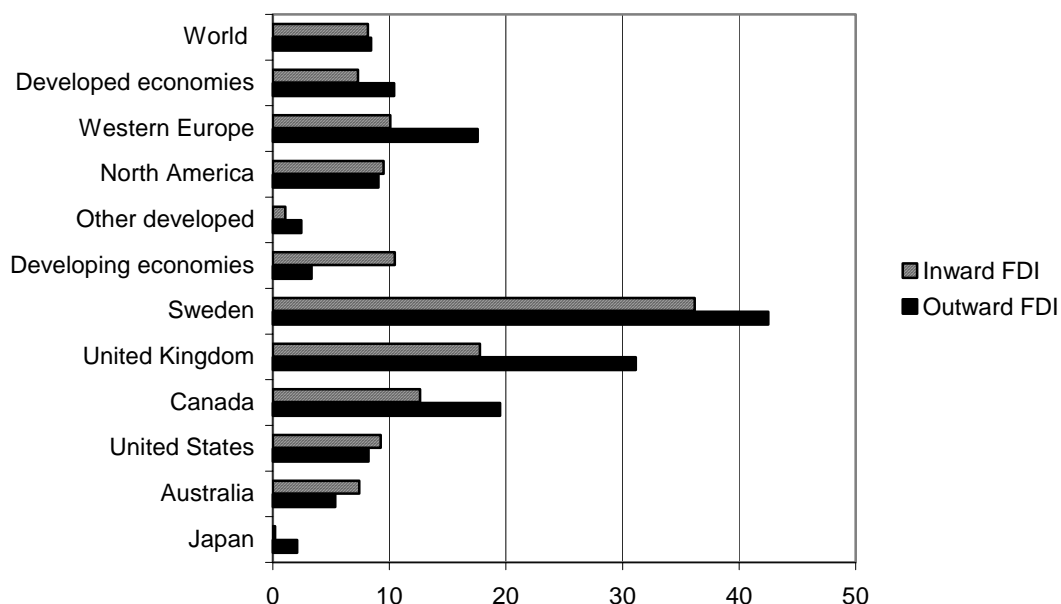


Source: United Nations (2000).

Statistical and reporting differences result in some inconsistencies in information about the relative magnitude of inward and outward direct investment data for individual countries. Nevertheless, the available information indicates that, amongst developed economies, there are substantial differences in the relative importance of direct investment flows (figure 2.6). The information also indicates that, unlike major developed economies such as Japan, the United Kingdom, Sweden and Canada — and developed economies as a group — FDI inflows to Australia over the period 1996-98 significantly exceeded outflows.

Figure 2.6 International comparison of the share of outward and inward FDI flows in gross fixed capital expenditure, average 1996 to 1998

Per cent



Source: United Nations (2000).

2.4 Summing up

In sum, offshore investment by Australian firms, as a proportion of gross fixed capital expenditure, is lower than that for many developed countries. Further, unlike most developed countries, offshore investment by Australian firms has generally been lower than inward FDI. Nonetheless, in the face of an escalation in offshore investment in the second half of the 1990s — and the offshore relocation of the head offices of some major Australian companies — concerns have been expressed about whether these developments serve Australia's best interests.

Theoretical work in this area suggests that the overall effect of outward investment on the domestic economy is more likely to be positive than negative. However, the effects will vary between individual projects, in part depending on the motives underlying the investment. For example, while the theory suggests that investments motivated by commercial or market related factors are likely to yield positive benefits overall, investments induced by government policy distortions — such as inappropriate labour market or mergers regulation — may impose additional costs on the domestic economy.

However, there is little contemporary empirical information available to support this contention. The Commission's survey of Australian offshore investment is intended to help fill this information gap by exploring the reasons why Australian firms invest offshore. The survey findings are summarised in the next chapter.

3 Survey findings

This chapter reports the main findings of the Commission's survey of Australian offshore investment. It covers:

- firms involved in offshore investment;
- the nature and location of offshore production;
- factors influencing offshore investment;
- domestic effects of offshore investment;
- factors influencing headquarters relocation; and
- domestic effects of Australian regulations.

Where possible, results are compared with the findings of the Industry Commission's 1995 survey of Australian offshore investment.¹

3.1 Firms involved in offshore investment

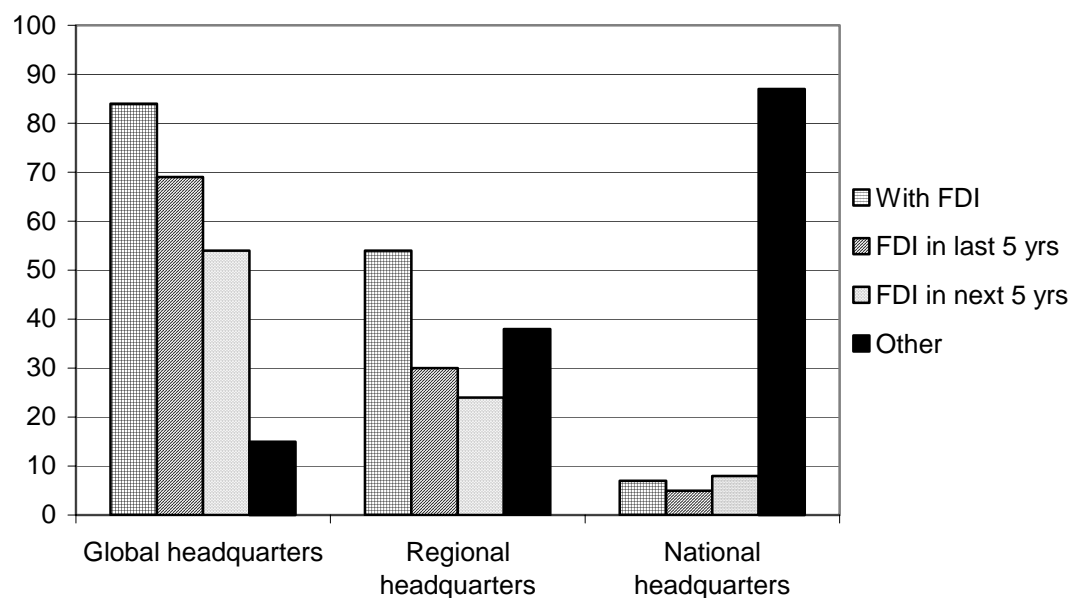
Ninety of the 201 firms responding to the survey indicated that they had offshore investments in place. Around half of these firms plus ten other respondents reported they were planning new FDI in the next five years (for example, through the establishment or expansion of a factory, mine or office). Thus, in total, 100 respondents were 'actively' engaged in FDI.

As might be expected, FDI was found to be most prevalent among respondents whose Australian headquarters are also their global headquarters and least prevalent among firms whose Australian headquarters only serve their 'national' operations (figure 3.1). However, because management links are not necessarily the same as equity links in multinational firms, some 'global' headquarters located in Australia did not report having FDI, while some 'national' headquarters reported having FDI.

¹ The summary information presented in this chapter is supported by detailed tables in appendix C. For reasons of confidentiality, the agriculture, forestry and fishing; electricity, gas and water; accommodation, cafes and restaurants; transport and storage; communications; and cultural and recreational services sectors are combined into the category 'other' in figures and tables presenting sectoral detail in this chapter and appendix C.

Figure 3.1 FDI by status of Australian headquarters

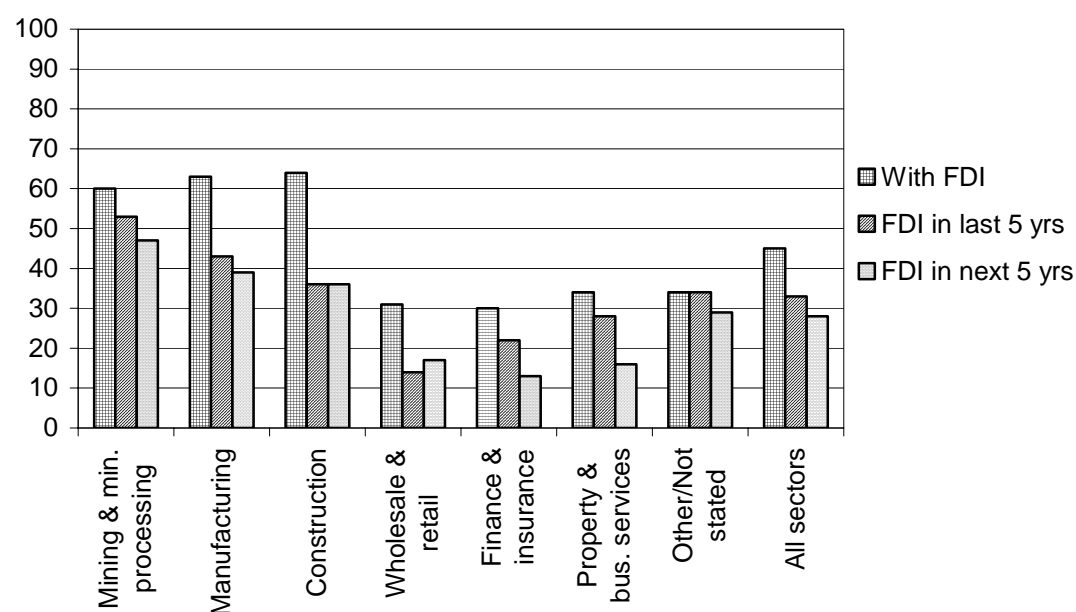
Per cent^a



For footnote see figure 3.2

Figure 3.2 FDI by industry

Per cent^a



^a Percentage of respondents in the respective industry categories that have the specified foreign investment characteristic.

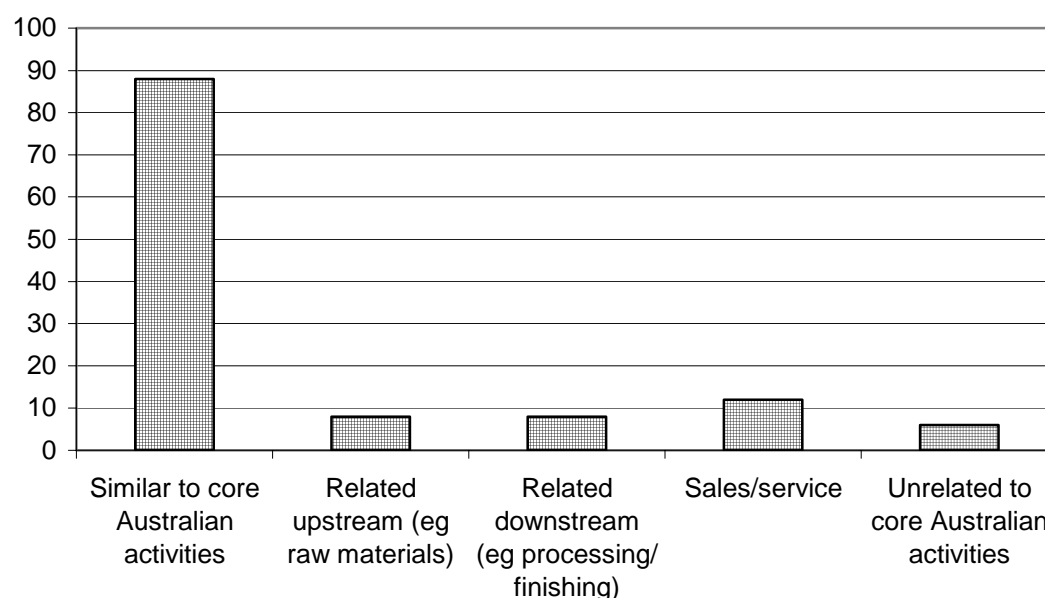
Source: Productivity Commission survey.

More than half of the respondents in the mining and minerals processing, manufacturing and construction sectors already have FDI — well above the proportion of respondents in other sectors (figure 3.2). Intentions to commit to new offshore investment were also highest for respondents in these sectors. Respondents in finance and insurance, and property and business services were least committed to undertaking new FDI offshore in the next five years.

3.2 Nature and location of offshore production

Over 85 per cent of the ninety respondents with existing direct investment offshore reported that all or some of their offshore operations were ‘similar to core operations in Australia’ (figure 3.3). This indicates a substantial degree of horizontal integration between the Australian and offshore operations of those firms.

Figure 3.3 **Nature of offshore operations relative to operations in Australia**
Per cent^a



^a Percentage of respondents that have direct investment offshore.

Source: Productivity Commission survey.

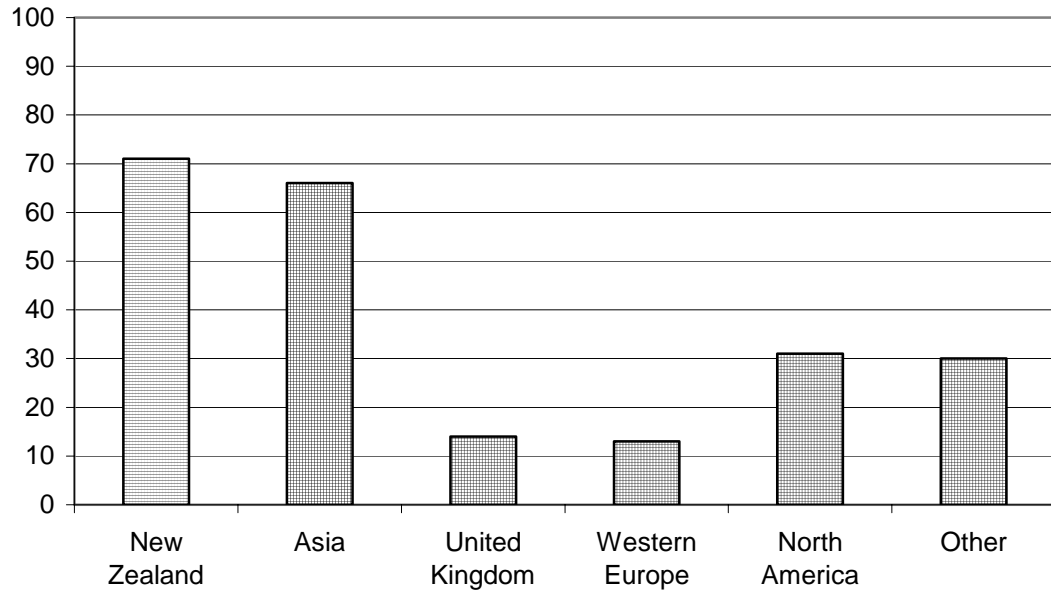
The link with core domestic activities aligns closely with the 1995 survey findings. However, in the 1995 survey, a significantly larger proportion of respondents (26 per cent compared to 12 per cent) were also involved in offshore sales/service activities. This may indicate that recent corporate developments have favoured the integration of formerly separate sales/service activity units into ‘core’ units at home or abroad or, alternatively, that some firms have divested themselves of their offshore sales/service activities.

Employment at offshore operations varied greatly among respondents — from a few people to tens of thousands. Overall, one-third of firms reporting outward FDI employed 1000 or more people at their offshore locations. This is an increase since the 1995 survey, when one-quarter of respondents had employment offshore exceeding 1000 (IC 1996, table D.4).

New Zealand and the Asian region were reported as the most common locations of offshore operations, followed by North America (figure 3.4). About 30 per cent of firms indicated that they have offshore operations in ‘other’ locations, including Africa, South and Central Asia and South America.

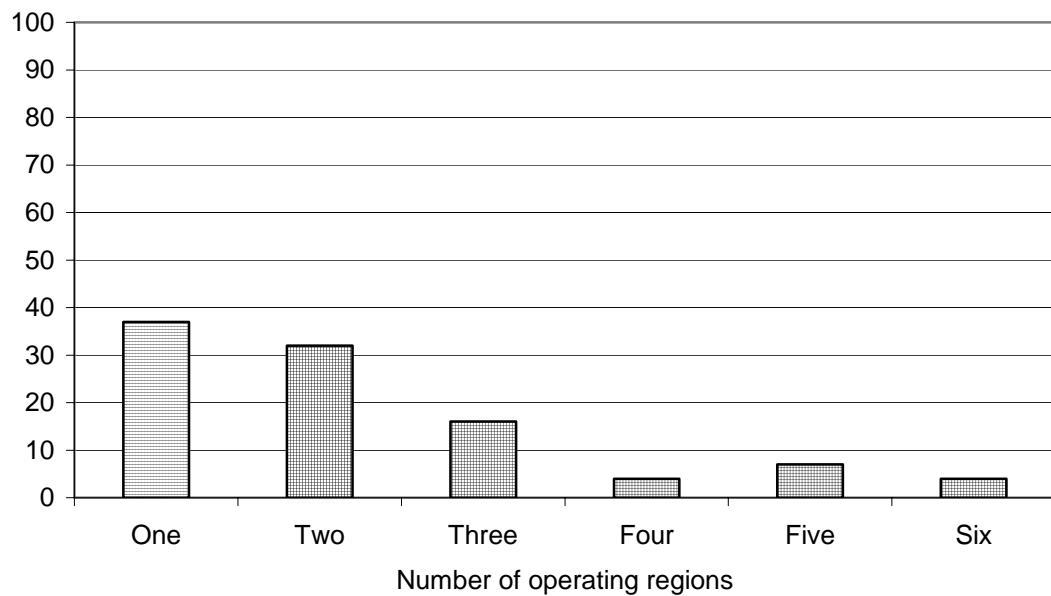
Over 60 per cent of respondents with FDI operate in more than one of the regions identified. For example, 16 per cent of respondents with FDI operate in 3 regions, while 4 per cent (4 respondents) reported direct investment in all 6 regional categories (including ‘other’) (figure 3.5).

Figure 3.4 Location of offshore operations
Per cent^a



For footnote see figure 3.5.

Figure 3.5 Offshore investment by number of operating regions
Per cent^a



^a Percentage of respondents that have direct investment offshore.

Source: Productivity Commission survey.

3.3 Factors influencing direct investment offshore

Commercial factors have been a more important influence on the investment decisions of the 66 respondents that undertook FDI in the last five years than have government-related factors.

This broad assessment, which is consistent with that reported in the 1995 survey, is illustrated by the index in table 3.1. An index value of 1 would indicate that all respondents consider the designated factor to be of high importance in their decisions, while a value of zero would indicate that all consider the factor to be of no importance. Thus, index values of less than 0.5 derived from the current survey responses point to the predominance of commercial over government influences in firms' offshore investment decisions. (A more detailed explanation of the index is provided in box 3.1.)

Table 3.1 **Importance of government-related factors relative to commercial factors**
Index^a

	<i>1995 survey</i>	<i>2001 survey^b</i>
Australian government factors	0.35	0.38
Foreign government factors	0.50	0.47

^a For a description of the index, see box 3.1. ^b For respondents that undertook FDI offshore in the last 5 years.
Sources: Productivity Commission survey; Industry Commission (1996, tables D.13,14).

Fifty-six firms, the majority of which already have offshore operations indicated an intention to undertake new investment in the next five years.

A striking result is that both groups of respondents regarded international market access as much more important than other commercial reasons in their offshore investment decisions (figure 3.6). The theory suggests that relative factor endowments and associated commercial cost differences between countries also can be important in influencing direct investment decisions (box 1.2). However, while some respondents did indicate that cost-related factors — access to lower priced labour and material inputs, and access to finance — were important to their decisions, most considered them to be of little or no importance.

'Other' commercial factors were also considered to be of little or no importance by most respondents. Nevertheless, a small number of respondents identified as important factors such as:

- the achievement of scale economies;

- the benefits from diversifying operations across product lines and currency zones;
- the potential for mineral exploration and access to mineral resources;
- the limited opportunities for expansion in local markets; and
- the provision of an outlet for world leading skills.

Box 3.1 **Calculation of the index of factors influencing direct investment offshore**

In a number of survey questions, respondents were asked to rank factors influencing their offshore investment decisions according to their importance. In most instances, this involved ranking factors as being of Nil/low, Moderate or High importance. However, some questions involved up to five possible rankings.

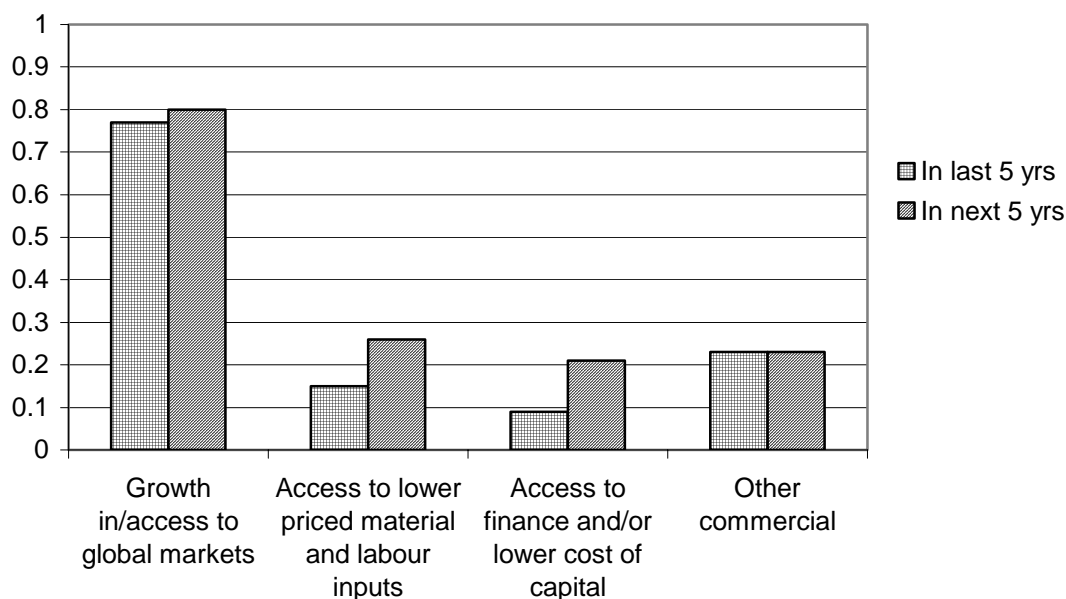
To facilitate comparisons, the overall ranking of each factor in each of these questions is summarised by a 'degree of influence index' (*DII*). The index is calculated by the following formula for each factor *F*:

$$DII_F = \frac{\sum_N w_n}{N \times w_{max}},$$

where *N* is the number of respondents completing a question, *w_n* is the weight for the response by each firm *n* and *w_{max}* is the maximum possible weight value for each firm. Thus, for questions where responses are ranked as either Nil/low, Moderate or High importance, the indexes are calculated by first assigning a weight of 0, 1 and 2 to Nil/low, Moderate or High responses, respectively, for each respondent. Second, the index contributions are aggregated for each factor across respondents to the question, and divided by the number of respondents times the maximum possible value of the weight (ie 2). The final index number has zero as the minimum possible value (ie when all respondents indicate that a factor is of Nil/low importance) and 1 as the maximum possible value (ie when all respondents indicate that a factor is of High importance).

The index calculation for question 22 ('what effect have your offshore operations had on your Australian activities over the last 5 years?') is a little different, with five response options and the assigned weights ranging from -2 to +2 to allow for negative and positive effects on domestic activity. As a result, the possible index value ranges from -1 to +1.

Figure 3.6 Importance of commercial factors in influencing FDI decisions
Index^a



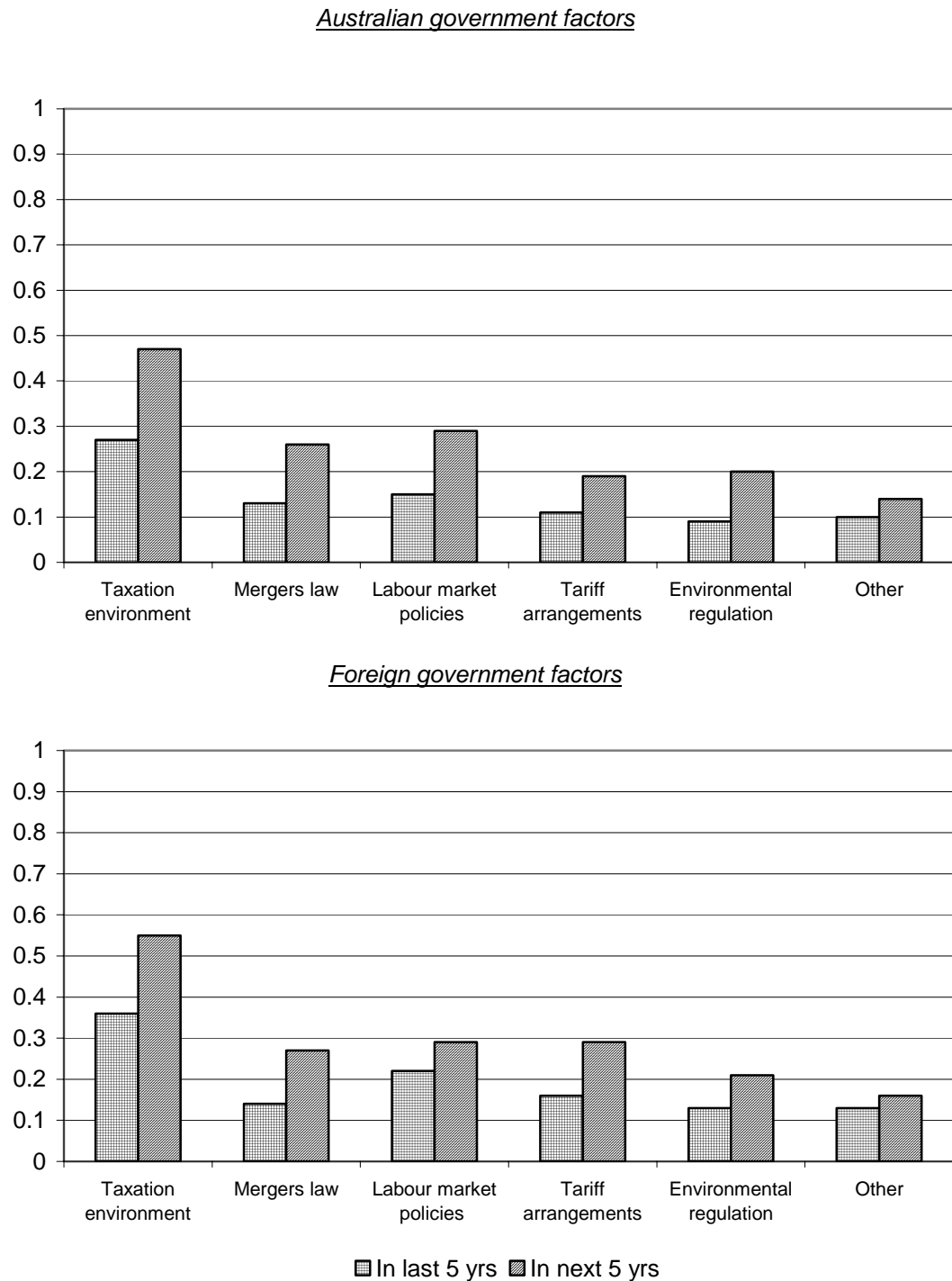
^a For a description of the index, see box 3.1.

Source: Productivity Commission survey.

International market access was also ranked well ahead of any factor subject to Australian and foreign government control in influencing FDI (figures 3.6 and 3.7).² The foreign and Australian taxation regimes were considered to be the most influential government-related factors. The next most important influences were foreign and Australian labour market policies and foreign tariffs, just ahead of mergers regulation.

² Although government-related factors were addressed in a separate question in the survey, it is possible that some respondents interpreted the question on market access as also encompassing offshore investment decisions made to overcome tariffs and other forms of border protection. Only four respondents rated foreign tariffs as important to their decisions to invest offshore. However, to the extent that some may have associated border protection with the question on market access, the survey responses would tend to overstate the importance of global market access in its purely commercial sense.

Figure 3.7 Importance of government factors in influencing FDI decisions
Index^a



^a For a description of the index, see box 3.1.

Source: Productivity Commission survey.

‘Other’ factors subject to control by government were seen as important by only about 10 per cent of respondents. Those nominated included:

- the level of civil engineering and construction activity offshore relative to Australia;
- access to oil, gas and other mineral resource prospects;
- charges and levies by State governments such as payroll tax, stamp duties, bed taxes and parking levies;
- regional trading arrangements in some overseas countries that penalise firms from non-participating countries;
- regulation of some Australian markets, particularly in the telecommunications and utilities sectors; and
- Australian regulation of gaming and wagering activities.

3.4 Effects of offshore investment

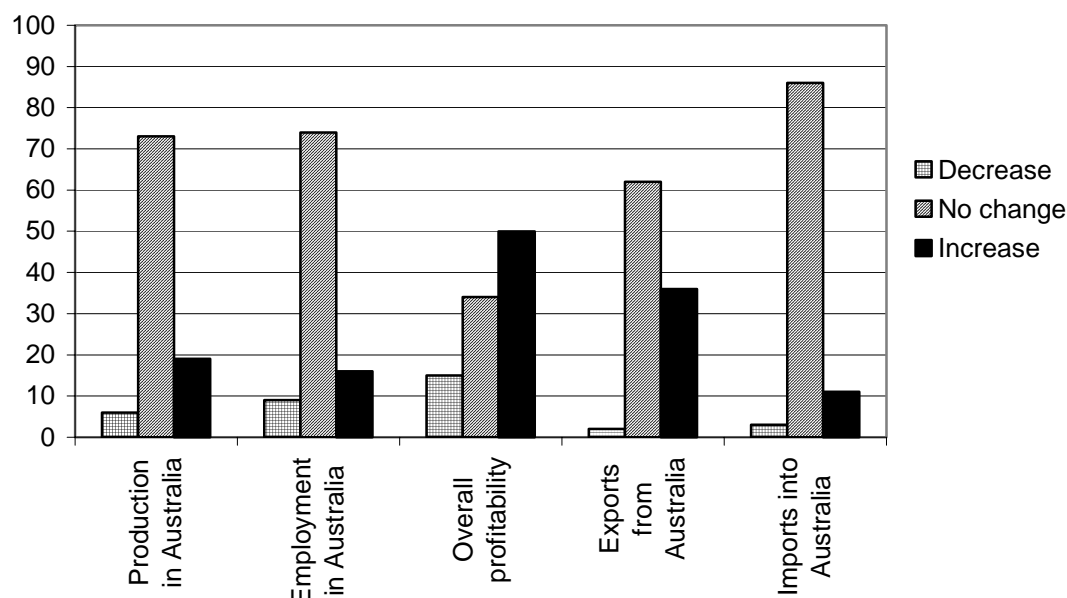
Effects on investors’ Australian activity

Over 90 per cent of the 90 respondents with FDI reported that their offshore investment activity had either not changed or had led to an increase in their Australian production, exports and employment over the last five years (figure 3.8). This again suggests that outward direct investment by Australian firms is mainly tapping into new growth and market opportunities for firms, rather than substituting for, or displacing, operations in Australia.

With regard to the effects of their FDI on imports and overall profitability:

- nearly 90 per cent of respondents reported no change or a decrease in their imports because of their offshore investment. This is consistent with the earlier finding that only a minority of firms vertically integrate across national boundaries to take advantage of lower priced material, labour or financial inputs; and
- the impact of offshore operations on firm profits was mixed. Half of the firms reported that their direct investment offshore had increased profits, one-third indicated no change and the remaining 15 per cent indicated that their offshore operations had been a drain on their domestic operations.

Figure 3.8 Effects of FDI on investors' Australian activity
Per cent^a



^a Percentage of respondents that have direct investment offshore.

Source: Productivity Commission survey.

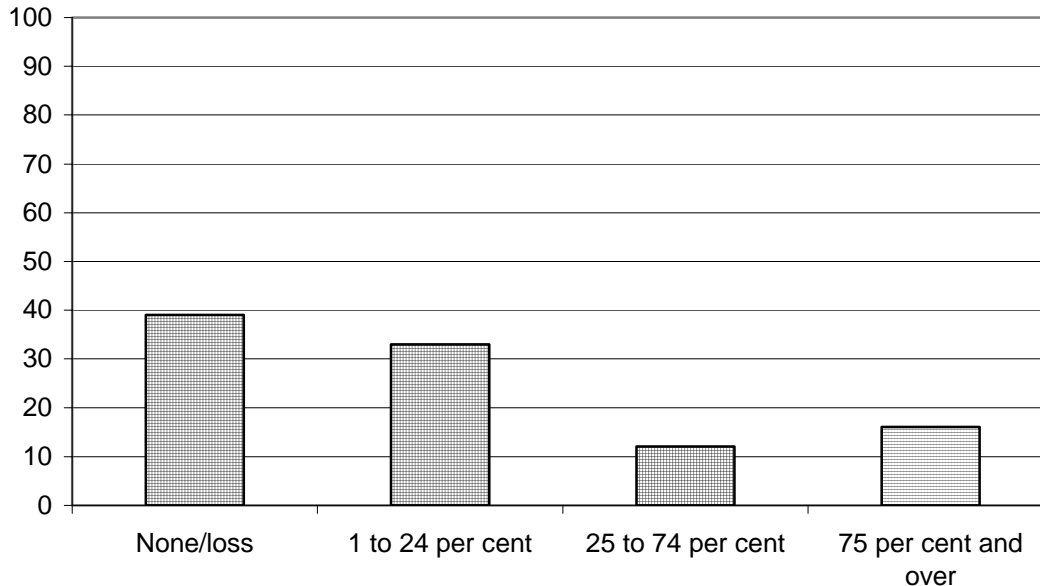
The broad direction of firms' responses is again similar to that obtained in the 1995 survey. However, a larger proportion of respondents to the current survey reported that their offshore operations had not changed their domestic activity levels.

Profit repatriation

Firms may choose to reinvest profits from their offshore operations or to repatriate them to Australia. The survey reveals that about one half of firms that repatriated some of their profits, repatriated less than 25 per cent (figure 3.9) — thus reinvesting the bulk of their offshore earnings. Around 40 per cent of respondents reinvested all offshore earnings (or made a loss). This suggests that a substantial portion of profits were used to build up international investments. Firms in the construction, wholesale and retail trade and other services (including transport) sectors tended to repatriate the highest proportion of their offshore profits.

The broad pattern of profit repatriation reported in the current survey was similar to that reported in the 1995 survey (IC 1996, table D.30).

Figure 3.9 Proportion of offshore profits repatriated to Australia
Per cent^a



^a Percentage of respondents that have direct investment offshore.

Source: Productivity Commission survey.

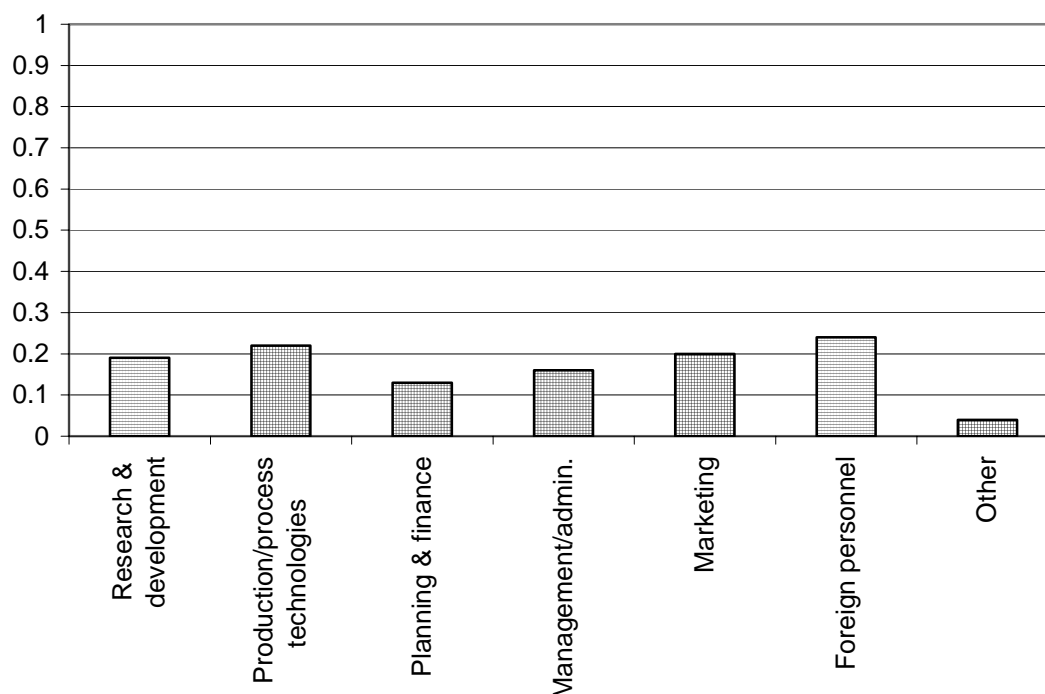
Skill transfer and other benefits

FDI places firms in new operating environments and can provide an opportunity for them to gain skills, technology and other benefits for their wider operations. However, only about one-third of firms ranked such gains as being of moderate to high importance. The most significant benefits identified were associated with research and development, production technologies, marketing and the availability of skilled personal (figure 3.10).

A few respondents indicated that their offshore operations had afforded ‘other’ benefits, including:

- better risk management and the achievement of scale economies in the provision of financial services;
- a global outlook and an improved ability to service clients globally; and
- economies of scope through access to a larger portfolio of development opportunities.

Figure 3.10 **Skills, technology and other benefits from offshore operations**
Index^a



^a For a description of the index, see box 3.1.

Source: Productivity Commission survey.

3.5 Headquarters relocation

Only eight firms out of the 201 respondents reported that they had relocated key headquarter functions offshore in the last five years or that they were actively considering doing so in the next five years. The low incidence of headquarters relocation is not surprising, as it is likely to be considered mainly by firms that already have a substantial proportion of their business interests offshore.

Not only is the number of respondents involved in headquarters relocation small, there is also considerable variability in the nature of their operations and the circumstances in which they have relocated their headquarter functions. For these reasons, it is not clear how representative their collective responses would be of all Australian firms with, or planning, offshore headquarters. Nevertheless, as the eight responding firms are relatively large, collectively employing over 35 000 people in Australia, they are likely to be influential in their industry and in the community generally.

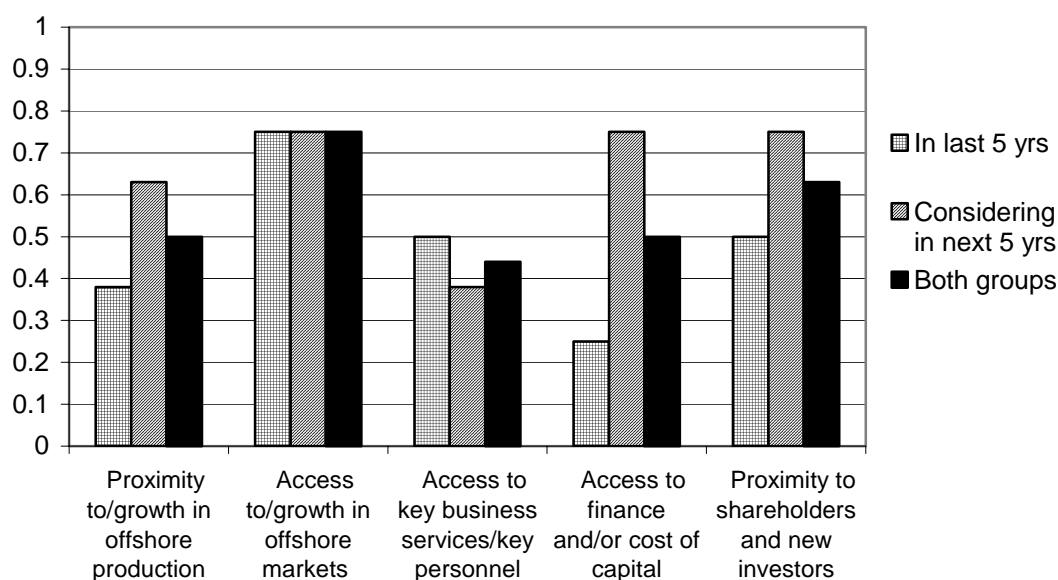
Factors influencing relocation decisions

Based on the responses from the eight firms, international market access was the most influential factor determining headquarters relocation decisions. Proximity to shareholders and new investors was ranked the second most influential commercial factor by these respondents (figure 3.11).

While international market access was the main commercial influence for both the group of four respondents that have relocated headquarters and the four that were considering doing so, there were considerable differences in the ranking of the remaining commercial factors between the two groups. For example, access to finance and a desire to be closer to shareholders appeared more important for respondents *considering* relocation than for respondents that have already relocated. Because of the small number of respondents, it is not clear whether these differences indicate a change in the relative importance of commercial factors over time or underlying differences in the circumstances of the firms in each group.

Figure 3.11 **Importance of commercial factors in influencing headquarters relocation decisions**

Index^a



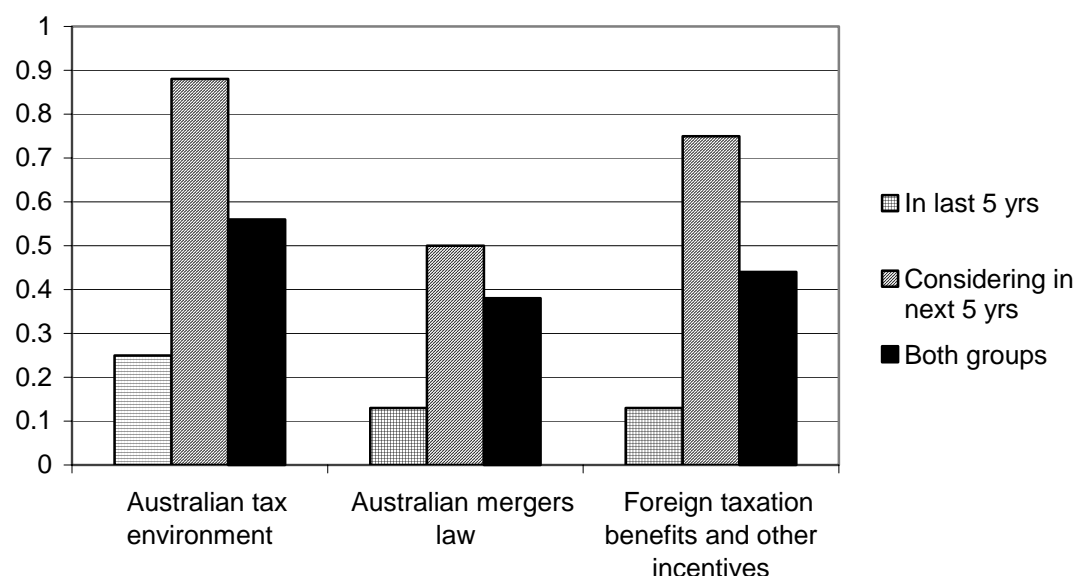
^a For a description of the index, see box 3.1.

Source: Productivity Commission survey.

Of the factors subject to government control, the Australian tax regime was cited as the most important government-related factor influencing relocation decisions, followed by the foreign tax environment (figure 3.12).³ Overall, none of the individual factors subject to government control was ranked as highly as international market access.

Government-related factors were substantially more important for the four respondents *considering* relocating their headquarters offshore than they were for the four that have already done so. Indeed, the Australian tax regime was rated the highest of all commercial and government-related factors by this group, and well above the significance attached to any government factor by respondents that have already relocated.

Figure 3.12 Importance of government factors in influencing headquarters relocation decisions
Index^a



^a For a description of the index, see box 3.1.

Source: Productivity Commission survey.

³ The recent government decision to change the double taxation agreement with the United States of America to reduce withholding tax paid on dividends remitted to Australia by overseas subsidiaries of Australian firms, and the possible implications of this change for double taxation agreements with other countries, may alleviate some concerns about Australian taxation arrangements.

Destination of headquarters relocation and sourcing of services

Respondents relocating key headquarters functions from Australia have mainly focused on English speaking commercial centres close to large markets in either the United Kingdom or North America. Three respondents indicated that, concurrent with their shift to the United Kingdom or North America, they would move some headquarter functions from Australia to Western Europe, Hong Kong, Singapore and other locations.

Each of the four respondents considering relocating their headquarters offshore indicated that they would also relocate accounting and research and development services that are now mainly out-sourced to other businesses in Australia. Three indicated that they would also relocate IT and legal services offshore.

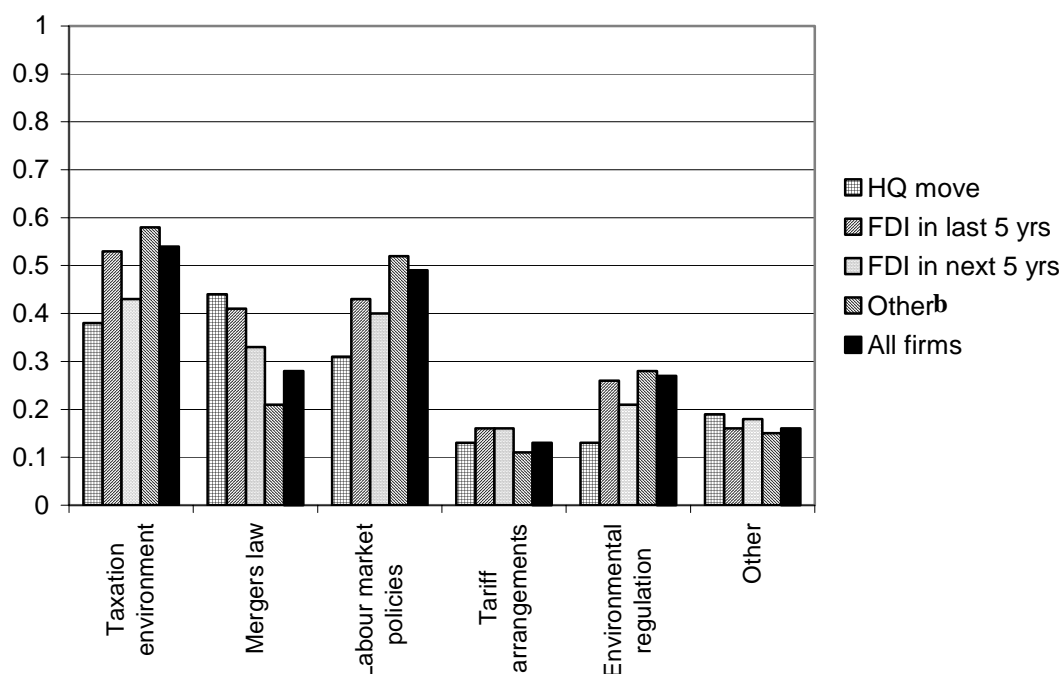
3.6 Importance of the Australian regulatory environment to domestic growth

The two aspects of Australia's regulatory environment identified by respondents as most inhibiting their domestic growth were taxation and labour market policies. More specifically, about one-third of respondents rated tax as being of high importance, while around a quarter considered labour market policies to fall in the high importance category (figure 3.13, table C.27).

Australian mergers law was not considered a particularly important impediment to domestic growth by respondents as a whole. However, firms active in relocating their headquarters regarded it as the leading regulatory factor constraining their domestic growth, just ahead of taxation and labour market policies. Mergers regulation was also considered to be a more important constraint on domestic growth by firms active in offshore investment than by other firms.

Figure 3.13 Importance of the Australian regulatory environment in inhibiting domestic growth

Index^a



^a For a description of the index, see box 3.1. ^b 'Other' includes all firms which *did not* relocate their headquarters in the last 5 years and which *are not* considering doing so in the next 5 years and firms which *did not* undertake FDI offshore in the last 5 years and which *are not* considering undertaking investment in the next 5 years. The 'other' group corresponds closely, but not exactly, to the group of firms with no outward FDI.

Source: Productivity Commission survey.

Some respondents provided comments in support of their rating of domestic regulatory impediments and related issues not explicitly identified in the questionnaire, although it is not clear how representative these comments are of the business sector as a whole (box 3.2).

Box 3.2 Respondents' comments on regulatory impediments inhibiting domestic growth

- “As Australia competes with other countries for investment capital, government controlled factors (for example, taxation and mergers law) should be structured to encourage domestic investment.”
- “The Australian taxation system needs to be modified to allow full franking of taxes paid overseas.”
- “The GST on local accommodation and holiday packages sold offshore disadvantages Australian suppliers relative to other exporters.”
- “Companies are forced to borrow to pay GST and company pay-as-you-go tax because income cannot be collected in 21 days.”
- “There is a fear that discussions between competitors could be viewed as collusion under the Trade Practices Act (TPA). This hinders the formation of Australian consortia to bid for overseas contracts.”
- “The ACCC’s implementation of the TPA has prevented the consolidation of agricultural marketing, storage and transport bodies needed to develop lower cost operations.”
- “Economic regulation of network prices faced by utilities is a prime reason why privately owned distribution companies are considering locating offshore.”
- “Labour market issues — particularly in Victoria — provide a strong motivation for examining the offshore relocation of manufacturing plant.”
- “Tariffs inflate general cost levels and disadvantage local producers competing with overseas suppliers.”

Source: Comments from survey participants.

3.7 Summing up

Around half of the 201 respondents to the Commission’s survey presently have direct offshore investments. A significant proportion of these firms undertook new direct investment in the last five years or were planning it in the next five years. In addition, a number of other firms not currently engaged in FDI plan to do so in the next five years. These results suggest the likelihood of continuing strong offshore investment by Australian firms.

The survey indicates that commercial factors were considerably more important than government-related factors in influencing firms to invest offshore. International market access was clearly the dominant commercial factor, while

taxation was seen as by far the most important influence subject to government control.

A large majority of firms with FDI indicated that their offshore operations did not lower their production and employment in Australia, with a significant number indicating that their FDI had been associated with *increased* activity in Australia. Overall, firms' offshore investment appears to be motivated by increased commercial opportunities afforded by the expansion of production across national boundaries, complementing, rather than substituting for, operations in Australia.

A small number of the firms surveyed has either moved key headquarters functions offshore in the last five years or reported that they were considering doing so in the next five. For these firms, commercial factors such as access to international markets and proximity to shareholders were the major motivating forces. The Australian taxation regime was the highest ranked government influence and the third highest ranked factor overall.

The survey did not obtain detailed information about the domestic effects of headquarters relocation on the firms involved or on the community more generally. This would require more targeted research. However, the survey reveals that those respondents that were planning to relocate their headquarters would also source some supporting services offshore (for example, some accounting and legal services).

Taxation and labour market policies were identified by respondents as the major regulatory impediments to their domestic growth. While not particularly important for respondents as a whole, mergers law was cited as the leading regulatory factor constraining domestic growth by firms involved in headquarters relocation.

A The Commission's survey

This appendix outlines the design and conduct of the Commission's survey of Australian offshore investment and reports on the response rate achieved. The questionnaire used in the survey is reproduced in appendix B.

A.1 Survey design and conduct

The design of the survey questions took into account the findings of recent economic literature on foreign direct investment (see chapter 1) and experience from the conduct of the Industry Commission's 1995 survey of offshore investment. The key information sought in the survey related to:

- the nature of firms and their offshore investments;
- factors influencing foreign direct investment and the offshore relocation of Australian headquarters; and
- the effects of offshore investment on firms' domestic activity.

Questions relating to decisions to locate offshore distinguished between commercial influences and factors subject to Australian and foreign government control. Because of the importance in policy discussions of the distinction between headquarters relocation and plant-level investment decisions, separate information was obtained on those aspects.

The survey sought information on firms' investment intentions over the next five years, as well as information on investment activity and the impact of offshore operations on firms' Australian activity over the past five years.

The questionnaire was designed so that it could be completed quickly without the need for respondents to refer to detailed company records. Most questions were in simple 'tick box' format and, where questions required a quantitative response, only approximate numbers were sought.

The questionnaire design benefited from consultations with the Australian Bureau of Statistics (ABS), the Commonwealth Treasury, the Business Council of Australia (BCA), the Australian Chamber of Commerce and Industry and International

Management Australia (formerly Business International). The questionnaire was tested with selected firms in consultation with the BCA.

The Commission engaged the ABS to select the sample of enterprise groups, conduct the mailout and initiate reminder action. Firms selected in the survey were asked to mail their responses directly to the Commission. Data entry, tabulation and the analysis of results was undertaken by the Commission.

A.2 Survey sample and response

The questionnaire was sent to 400 firms in September 2001 who were asked to voluntarily complete the questionnaire and return it to the Commission. The firms were selected by the ABS from its register of businesses — a comprehensive listing of all businesses in the economy.

Reflecting the predominance of large enterprises in offshore investment, the sample was structured to include all large trading enterprises (those employing over 1000 people) and the 10 largest firms in each ‘market sector’ of the ABS’s industry classification (table A.1). The industries not covered in the survey are those in which government and non-profit enterprises providing non-marketed goods and services are predominant. Because of the forward looking nature of the survey, firms with FDI and firms that did not have FDI at the time of the survey (but who could have intentions to invest offshore) were identified.

The survey unit is the ‘enterprise group’ — defined by the ABS to be all legal entities in Australia under common ownership or control (including companies, joint ventures and branches of foreign groups). For simplicity, enterprise group units are referred to in this report as ‘organisations’ or ‘firms’.

Completed questionnaires were received from 201 firms, affording a 50 per cent response. This is considered high by conventional standards for a voluntary survey.

Among the respondents, there is a fairly even representation of firms whose headquarters can be described as global, regional or national. The survey also achieved an even representation of branches and subsidiaries of foreign controlled groups. Across industry sectors, there is a concentration of firms in manufacturing, wholesale and retail trade, finance and insurance, and property and business service activities, reflecting a concentration in these sectors of large private firms — the focus of the current survey.

Respondents’ descriptions of their ‘main global activity’ provided in item 3 of the questionnaire was used to cross classify selected survey results by industry.

Table A.1 Industry coverage of the survey

<i>Market sector^a</i>	<i>Other activities</i>
Agriculture, forestry and fishing	Government administration and defence
Mining	Education
Manufacturing	Health and community services
Electricity, gas and water supply	Personal and other services
Construction	Ownership of dwellings
Wholesale trade	
Retail trade	
Accommodation, cafes and restaurants	
Transport and storage	
Communication services	
Finance and insurance	
Property and business services	
Cultural and recreational services	

^a The 'market sector' is a special industry grouping comprising activities predominantly producing marketed goods and services. It corresponds to the ABS 'market sector' for which productivity estimates are calculated plus property and business services.

Source: ABS (2000, *Australian National Accounts: Concepts, Sources and Methods*, Cat. no. 5216.0, Chapter 28).

Firms reporting outward FDI in the Commission's survey comprise over 60 per cent of the number of 'business units' reporting to the ABS quarterly survey of outward FDI.¹ They collectively employed around 780 000 persons in Australia, or over 8 and 11 per cent of national and market sector employment, respectively. Employment at offshore locations of all firms surveyed was around 177 000 persons, or 22 per cent of employment at the Australian locations of these firms.

Eight respondents reported that they had either moved their headquarters offshore in the last five years or were actively considering doing so in the next five years (table A.2). Ninety firms reported having outward FDI, with most reporting that they undertook outward direct investment in the last five years. Fifty six firms indicated that they intend to undertake new investment in the next five years. Around 10 firms that do not currently have foreign direct investment reported that they intend to undertake foreign direct investment in the next five years. Half of the respondents indicated that they did not have foreign direct investments and did not intend to undertake such investment in the next five years.

¹ This measure provides a conservative indication of actual coverage achieved in the Commission survey because the enterprise group statistical unit used for the survey may comprise several 'business units' as adopted in the ABS foreign direct investment collections.

Table A.2 **Overall response^a**

	<i>Number</i>	<i>Per cent of responses</i>
Questionnaires dispatched	403	
Responses	201	100
Head office relocations		
Firms that relocated HQ offshore in the last 5 years	4	2
Firms actively considering HQ relocation in the next 5 years	4	2
Direct investment offshore		
Firms with direct investment	90	45
Firms that undertook new direct investment in the last 5 years	66	33
Firms intending to undertake new direct investment in the next 5 years	56	28
Other		
Firms with no current direct investment activity or offshore investment intentions in next 5 years	101	50

^a Components do not add to the total number of responses because an individual firm could be classified to more than one category (eg a firm could have direct investment and be intending to undertake new direct investment in the next 5 years).

Source: Productivity Commission survey.

B Survey questionnaire



SURVEY OF AUSTRALIAN OFFSHORE INVESTMENT

This survey seeks information about the offshore relocation, or possible relocation, of your headquarters and other activities.

Confidentiality

All information provided in this form will be treated as strictly **Confidential** to the Productivity Commission and the Australian Bureau of Statistics. Only aggregate data will be published.

Definitions

Australian organisation is defined as all the enterprises/activities in Australia under common ownership or control.

Australian headquarters is defined as the unit in Australia at which key strategic, policy and management decisions are made for your operations.

Direct investment offshore (or 'foreign direct investment') is defined as investment in overseas enterprises in which your Australian organisation has a significant influence and owns not less than 10 per cent of the ordinary shares or voting stock (or equivalent). The survey does not cover portfolio investment.

Queries

Queries about this questionnaire can be addressed to Paul Gretton on (02) 6240 3252 or e-mail pgretton@pc.gov.au.

Return date

Please return the completed questionnaire in the reply paid envelope provided to the Productivity Commission, PO Box 80, Belconnen ACT 2616 by **27 September 2001**.

Person the Commission should contact with any queries regarding this survey return

Company:
Contact person:
Contract address:
.....
Telephone: E-mail:

COMMERCIAL IN CONFIDENCE

Commonwealth Government Statistical Clearing House Approval Number: 00987-01

PART A: ORGANISATION DETAILS

1. Is your Australian organisation a branch or subsidiary of a foreign controlled multinational group?

Tick one box

Yes

☐

No

☐

2. Is your Australian headquarters (ie the unit in Australia at which key strategic, policy and management decisions are made):

Tick one box

The global headquarters for operations in Australia and overseas? ...

☐

The regional headquarters for operations in Australia and other designated countries?

☐

The national headquarters for operations in Australia only?

☐

3. What is the main global activity of your group?

Tick one box

Mining and/or minerals processing

☐

Manufacturing

☐

Financial services

☐

Other (please specify:

☐

4. Indicate the current level of foreign direct investment equity holdings in your Australian organisation?

Tick one box

No direct investment (ie no foreign investor with 10 per cent or more of the ordinary shares or voting stock)

☐

10 to 49 per cent

☐

50 to 74 per cent

☐

75 per cent and over

☐

5. Approximately how many persons do you currently employ in Australia?

No. of persons

At your Australian headquarters

.....

At your other Australian locations

.....

Total employment

.....

**PART B: FACTORS INFLUENCING CHANGES IN THE
LOCATION OF YOUR HEADQUARTERS**

6. Have your organisation's key headquarter functions (ie chief executive officer and corporate support units) relocated from Australia to offshore in the *last* 5 years?

Yes ☐ → Go to question 7
No ☐ → Go to question 10

7. Where were these headquarter functions relocated to?

Tick all that apply

United Kingdom	<input type="checkbox"/>
Western Europe	<input type="checkbox"/>
North America	<input type="checkbox"/>
Hong Kong	<input type="checkbox"/>
Singapore	<input type="checkbox"/>
Other (please specify:	<input type="checkbox"/>

8. What was the importance of the following factors in influencing the offshore relocation of your headquarter functions?

Tick one box in each row

	Nil/Low	Moderate	High
Commercial factors			
Proximity to/growth in offshore production	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Access to/growth in offshore markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Access to key business services/key personnel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Access to finance and/or cost of capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Proximity to shareholders and new investors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other commercial (please specify:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Factors subject to government control			
Australian tax environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Australian mergers law	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Foreign taxation benefits and other incentives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other government (please specify:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. How important were factors subject to government control relative to commercial factors in making the decision to relocate your headquarters offshore?

Tick one box in each column

	Australian factors	Foreign factors
Very important	<input type="checkbox"/>	<input type="checkbox"/>
Important	<input type="checkbox"/>	<input type="checkbox"/>
Of some importance	<input type="checkbox"/>	<input type="checkbox"/>
Not important	<input type="checkbox"/>	<input type="checkbox"/>
Not relevant	<input type="checkbox"/>	<input type="checkbox"/>

10. Are you *actively* considering moving your key Australian headquarter functions offshore in the next 5 years?

Yes ☐ → Go to question 11
No ☐ → Go to question 14

11. If your headquarter functions are relocated, what would be the likely new offshore location(s)?

Tick all that apply

United Kingdom	<input type="checkbox"/>
Western Europe	<input type="checkbox"/>
North America	<input type="checkbox"/>
Hong Kong	<input type="checkbox"/>
Singapore	<input type="checkbox"/>
Other (please specify:	<input type="checkbox"/>

12. What is the importance of the following factors which could lead you to relocate your headquarter functions offshore in the next 5 years?

Tick one box in each row

	Nil/Low	Moderate	High
Commercial factors			
Proximity to/growth in offshore production	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Access to/growth in offshore markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Access to key business services/key personnel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Access to finance and/or cost of capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Proximity to shareholders and new investors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other commercial (please specify:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Factors subject to government control			
Australian tax environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Australian mergers law	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Foreign taxation benefits and other incentives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other government (please specify:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

13. If you relocate your headquarter functions offshore, which of the following services now mainly sourced from other businesses in Australia would you source offshore?

Tick all that apply

- | | |
|---|--------------------------|
| IT services | <input type="checkbox"/> |
| Accounting services | <input type="checkbox"/> |
| Legal services | <input type="checkbox"/> |
| Management consulting services | <input type="checkbox"/> |
| Advertising/marketing services | <input type="checkbox"/> |
| Research and development services | <input type="checkbox"/> |
| Other services (please specify:.....) | <input type="checkbox"/> |

PART C: NATURE OF THE OFFSHORE OPERATIONS OF YOUR ORGANISATION

14. Does your Australian organisation have direct investment offshore?

- | | | |
|-----|----------------------------|-------------------|
| Yes | <input type="checkbox"/> → | Go to question 15 |
| No | <input type="checkbox"/> → | Go to question 25 |

15. What is the nature of your current offshore operations relative to your operations in Australia?

Tick all that apply

- | | |
|--|--------------------------|
| Similar to core Australian activities | <input type="checkbox"/> |
| Related upstream (eg raw materials) | <input type="checkbox"/> |
| Related downstream (eg processing/finishing) | <input type="checkbox"/> |
| Sales/service | <input type="checkbox"/> |
| Unrelated to core Australian activities | <input type="checkbox"/> |

16. Approximately how many persons do you currently employ in your offshore operations?

No. of Persons

.....

17. In which region(s) do you have offshore operations?

Tick all that apply

- New Zealand ☐
- Asia ☐
- United Kingdom ☐
- Western Europe ☐
- North America ☐
- Other (please specify:) ☐

18. Did you undertake new direct investment offshore in the last 5 years?

- Yes ☐ → Go to question 19
- No ☐ → Go to question 22

19. What was the importance of the following commercial factors in influencing your decision to establish offshore operations?

Tick one box in each row

- | | Nil/Low | Moderate | High |
|---|--------------------------|--------------------------|--------------------------|
| Growth in/access to global markets | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Access to lower priced material and labour inputs | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Access to finance and/or lower cost of capital | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Other commercial (please specify:) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

20. What was the importance of the following factors subject to government control in influencing your decision to establish offshore operations?

Tick one Aust. and one foreign factor box in each row

- | | <u>Australian factors</u> | | | <u>Foreign factors</u> | | |
|--------------------------------|---------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Nil/Low | Moderate | High | Nil/Low | Moderate | High |
| Taxation environment | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Mergers law | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Labour market policies | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Tariff arrangements | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Environmental regulation | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Other (please specify:) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

21. How important were factors subject to government control relative to commercial factors in making decisions to invest offshore?

Tick one box in each column

	Australian factors	Foreign factors
Very important	<input type="checkbox"/>	<input type="checkbox"/>
Important	<input type="checkbox"/>	<input type="checkbox"/>
Of some importance	<input type="checkbox"/>	<input type="checkbox"/>
Not important	<input type="checkbox"/>	<input type="checkbox"/>
Not relevant	<input type="checkbox"/>	<input type="checkbox"/>

PART D: EFFECTS OF OFFSHORE OPERATIONS OVER THE LAST 5 YEARS

22. What effect have your offshore operations had on the following measures of your Australian activities over the last 5 years?

Tick one box in each row as applicable

	Decreased			Increased	
	15% or more	1 to 14%	No change	1 to 14%	15% or more
Production <i>in</i> Australia.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Employment <i>in</i> Australia.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Overall profitability.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Exports <i>from</i> Australia.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Imports <i>into</i> Australia.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

23. Approximately what proportion of your offshore profits has been repatriated to Australia over the last 5 years?

Tick one box

None/loss	<input type="checkbox"/>
0 to 24 per cent	<input type="checkbox"/>
25 to 74 per cent	<input type="checkbox"/>
75 per cent and over	<input type="checkbox"/>

24. To what extent have your Australian activities gained skills, technology or other benefits as a result of your offshore operations over the last 5 years?

Tick one box in each row

	Nil/Little	Moderate	Large
Research and development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Production/process technologies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Strategic planning and finance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Management/administration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Marketing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Availability of foreign located personnel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

PART E: POSSIBLE NEW DIRECT INVESTMENT OFFSHORE IN THE NEXT 5 YEARS

25. Is your organisation intending to undertake new direct investment offshore in the next 5 years?

- Yes ☐ → Go to question 26
 No ☐ → Go to question 29

26. What is the main direct investment option being considered?

Tick all that apply

Relocating <i>all</i> Australian operations offshore	<input type="checkbox"/>
Relocating <i>some</i> Australian operations offshore	<input type="checkbox"/>
Independent growth offshore ^a	<input type="checkbox"/>
Other (please specify:	<input type="checkbox"/>

^aInvestment in offshore operations intended to increase the overall size of your operations without scaling back your Australian operations.

27. What is the importance of the following commercial factors which *could* lead to new direct investment offshore in the next 5 years?

Tick one box in each row

	Nil/Low	Moderate	High
Growth in/access to global markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Access to lower priced material and labour inputs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Access to finance and/or lower cost of capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other commercial (please specify:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

28. What is the importance of the following factors subject to government control that could lead to new direct investment offshore in the next 5 years?

Tick one Aust. and one foreign factor box in each row

	Australian factors			Foreign factors		
	Nil/Low	Moderate	High	Nil/Low	Moderate	High
Taxation environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mergers law	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Labour market policies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tariff arrangements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Environmental regulation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify:.....)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

29. What is the importance of the following aspects of the Australian regulatory environment in inhibiting the domestic growth of your organisation?

Tick one box in each row

	Nil/Low	Moderate	High
Taxation environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mergers law	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Labour market policies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tariffs on outputs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Environmental regulation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify:.....)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

30. Please provide an estimate of the time taken by your organisation to complete this form?

.....hrs.....mins

31. Please provide any comments that you wish to make on the information you have supplied on this form, questions which caused you problems or other matters relating to the relocation or possible relocation of your headquarters or other activities.

.....

.....

.....

.....

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.....

.....

THANK YOU FOR COMPLETING THIS FORM

C Detailed survey tables

This appendix contains tables that detail the response to the survey, the characteristics of participating firms and various tabulations of the data collated from the survey. The tables are:

Table C.1	Detailed survey response
Table C.2	Nature of Australian headquarters by FDI status of firms
Table C.3	Links of Australian organisations with foreign controlled groups by main global activity
Table C.4	Coverage of Australian organisations by main global activity and FDI status of firms
Table C.5	Links of Australian organisations with foreign controlled groups by direct investment relationship
Table C.6	Employment at Australian headquarters and other locations by employment size of Australian organisation
Table C.7	Employment size of Australian organisation by main global activity
Table C.8	Importance of commercial and government-related factors in influencing headquarters relocation decisions
Table C.9	Importance of government-related factors relative to commercial factors in influencing headquarters relocation decisions in the last 5 years
Table C.10	Regions that key headquarter functions were relocated to in the last 5 years or likely to be relocated to in the next 5 years
Table C.11	Business services sourced in Australia to be sourced offshore with headquarters relocation
Table C.12	Nature of offshore operations relative to operations in Australia by main global activity
Table C.13	Employment size of offshore operations by main global activity
Table C.14	Regions of offshore operations by main global activity
Table C.15	Importance of commercial factors in influencing decisions to undertake new FDI in the last 5 years

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- Table C.16 Importance of Australian government-related factors in influencing decisions to undertake new FDI in the last 5 years
- Table C.17 Importance of foreign government-related factors in influencing decisions to undertake new FDI in the last 5 years
- Table C.18 Importance of government-related factors relative to commercial factors in influencing decisions to undertake new FDI in the last 5 years
- Table C.19 Effect of offshore operations on measures of Australian activity over the last 5 years
- Table C.20 Proportion of profits from offshore activities repatriated to Australia over the last 5 years
- Table C.21 Extent to which Australian firms have gained skills, technology and other benefits from offshore operations
- Table C.22 Main direct investment options being considered for the next 5 years
- Table C.23 Importance of commercial factors in influencing decisions to undertake new FDI in the next 5 years
- Table C.24 Importance of Australian government-related factors in influencing decisions to undertake new FDI in the next 5 years
- Table C.25 Importance of foreign government-related factors in influencing decisions to undertake new FDI in the next 5 years
- Table C.26 Importance of commercial and government-related factors in influencing decisions to undertake FDI — summary
- Table C.27 Importance of aspects of the Australian regulatory environment in inhibiting domestic growth by FDI status of firms

Table C.1 **Detailed survey response**

Number of responses, per cent

	<i>Number</i>	<i>Per cent of dispatches</i>	<i>Per cent of responses</i>
Dispatches	403	100	200
Responses	201	50	100
Head office relocations			
Firms that relocated HQ offshore in the last 5 years	4	1	2
Firms actively considering HQ relocation in the next 5 years	4	1	2
Direct investment offshore			
Firms with direct investment	90	22	45
Firms that undertook new direct investment in the last 5 years	66	16	33
Firms intending to undertake new direct investment in the next 5 years	56	14	28
Firms with no outward direct investment activity or investment intentions in next 5 years	101	25	50

Source: Questions 6, 10, 14, 18, 25.

Table C.2 **Nature of Australian headquarters by FDI status of firms**

	<i>Number</i>	<i>Per cent of responses ^a</i>	<i>FDI status ^b</i>							
			<i>With FDI</i>		<i>Undertook FDI in the last 5 years</i>		<i>Undertake FDI in the next 5 years</i>		<i>Other</i>	
			<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
Global headquarters	68	34	57	84	47	69	37	54	10	15
Regional headquarters	50	25	27	54	15	30	12	24	19	38
National headquarters	83	41	6	7	4	5	7	8	72	87

^a Percentage of all respondents.

^b The number of respondents in each foreign direct investment category as a percentage of the total number of respondents in the respective headquarters' categories. The percentages do not necessarily add to 100 because individual firms may be included in more than one direct investment category.

Source: Questions 2, 14, 18, 25.

Table C.3 **Links of Australian organisations with foreign controlled groups by main global activity**

	<i>Branch or subsidiary of foreign controlled group</i>		<i>Other</i>		<i>Total</i>	
	No.	%	No.	%	No.	%
Mining and minerals processing	6	40	9	60	15	100
Manufacturing	29	52	27	48	56	100
Construction	4	36	7	64	11	100
Wholesale and retail trade	10	34	19	66	29	100
Finance and insurance	13	57	10	43	23	100
Property and business services	13	41	19	59	32	100
Other/Not stated	15	43	20	57	35	100
Total	90	45	111	55	201	100

Source: Questions 1, 3.

Table C.4 Coverage of Australian organisations by main global activity and FDI status of firms

	Number	Per cent of responses ^a	FDI status ^b							
			With FDI		Undertook FDI in the last 5 years		Undertake FDI in the next 5 years		Other	
			No.	%	No.	%	No.	%	No.	%
Mining and minerals processing	15	7	9	60	8	53	7	47	5	33
Manufacturing	56	28	35	63	24	43	22	39	18	32
Construction	11	5	7	64	4	36	4	36	4	36
Wholesale and retail trade	29	14	9	31	4	14	5	17	18	62
Finance and insurance	23	11	7	30	5	22	3	13	16	70
Property and business services	32	16	11	34	9	28	5	16	20	63
Other/Not stated	35	17	12	34	12	34	10	29	20	57
Total	201	100	90	45	66	33	56	28	101	50

^a The number of respondents in each industry sector as a percentage of the total number of respondents.

^b The number of respondents in each foreign direct investment category as a percentage of the total number of respondents in the respective industry sector. The percentages do not necessarily add to 100 because individual firms may be included in more than one direct investment category.

Source: Questions 3, 14, 18, 25.

Table C.5 **Links of Australian organisations with foreign controlled groups by direct investment relationship**

	<i>Branch or subsidiary of foreign controlled group</i>		<i>Other</i>		<i>Total</i>	
	No.	%	No.	%	No.	%
No direct investment	0	0	87	43	87	43
Level of direct investment						
10 to 74 per cent	11	5	24	12	35	17
75 per cent and over	79	39	0	0	79	39
Total	90	45	111	55	201	100

Source: Questions 1, 4.

Table C.6 **Employment at Australian headquarters and other locations by employment size of Australian organisation**

	<i>Less than 500 persons</i>		<i>500 to 999 persons</i>		<i>1000 to 1999 persons</i>		<i>2000 or more persons</i>		<i>Total</i>	
	No	%	No	%	No	%	No	%	No	%
Respondents	13	6	21	10	76	38	91	45	201	100
Employment										
At Australian headquarters	2 340	79	5 086	32	25 640	24	49 852	8	82 918	11
At other Australian locations	623	21	10 637	68	79 773	76	613 520	92	704 553	89
Total	2 963	100	15 723	100	105 413	100	663 372	100	787 471	100

Source: Question 5.

Table C.8 **Importance of commercial and government-related factors in influencing headquarters relocation decisions**

	<i>Degree of importance (%)</i> ^a				<i>Index</i> ^b		
	<i>Nil/Low</i>	<i>Moderate</i>	<i>High</i>	<i>Total</i>	<i>In last 5 years</i>	<i>Considering in next 5 years</i>	<i>All firms</i>
Commercial factors							
Proximity to/growth in offshore production	25	50	25	100	0.38	0.63	0.50
Access to/growth in offshore markets	13	25	63	100	0.75	0.75	0.75
Access to key business services/key personnel	50	13	38	100	0.50	0.38	0.44
Access to finance and/or cost of capital	50	0	50	100	0.25	0.75	0.50
Proximity to shareholders and new investors	38	0	63	100	0.50	0.75	0.63
Other commercial	100	0	0	100	0.00	0.00	0.00
Government-related factors							
Australian tax environment	25	38	38	100	0.25	0.88	0.56
Australian mergers law	38	50	13	100	0.13	0.50	0.38
Foreign taxation benefits and other incentives	50	13	38	100	0.13	0.75	0.44
Other government	100	0	0	100	0.00	0.00	0.00

^a Percentage of respondents that relocated key headquarter functions offshore in the last 5 years or who are actively considering moving key headquarter functions offshore in the next 5 years.

^b See box 3.1 for an explanation of the construction and meaning of the index. The index number has 0 as the minimum and 1 as its maximum possible value.

Source: Questions 6, 8, 10, 12.

Table C.9 **Importance of government-related factors relative to commercial factors in influencing headquarters relocation decisions in the last 5 years**

	<i>Index</i> ^a
Australian factors	0.44
Foreign factors	0.56

^a See box 3.1 for an explanation of the construction and meaning of the index. The index number has 0 as the minimum and 1 as its maximum possible value.

Source: Questions 6, 9.

Table C.10 **Regions that key headquarter functions were relocated to in the last 5 years or likely to be relocated to in the next 5 years**

Per cent ^a

	<i>United Kingdom</i>	<i>Western Europe</i>	<i>North America</i>	<i>Hong Kong</i>	<i>Singapore</i>	<i>Other</i>
In the last 5 years	50	0	25	0	0	25
Likely destinations in the next 5 years	100	25	75	25	25	0
All firms ^b	75	13	50	13	13	13

^a Percentage of respondents that relocated or are actively considering moving key headquarter functions offshore, respectively.

^b Percentages can add to more than 100 because individual firms can move components of former Australian headquarters to more than one region.

Source: Questions 6, 7, 10, 11.

Table C.11 **Business services sourced in Australia to be sourced offshore with headquarters relocation**
Per cent ^a

	<i>All sectors</i>
IT services	75
Accounting services	100
Legal services	75
Management consulting services	25
Advertising marketing services	25
Research and development services	100
Other services	25

^a The number of respondents as a percentage of those that are actively considering moving key Australian headquarter functions offshore in the next 5 years.

Source: Questions 10, 13.

Table C.12 **Nature of offshore operations relative to operations in Australia by main global activity**Per cent^a

	<i>Similar to core Australian activities</i>	<i>Related upstream (eg raw materials)</i>	<i>Related downstream (eg processing/ finishing)</i>	<i>Sales/service</i>	<i>Unrelated to core Australian activities</i>
Mining and minerals processing	78	44	33	22	22
Manufacturing	89	9	6	17	0
Construction	100	0	0	0	0
Wholesale and retail trade	78	0	11	0	11
Finance and insurance	100	0	0	0	0
Property and business services	100	0	0	0	9
Other/Not stated	75	0	8	25	8
Total ^b	88	8	8	12	6

^a Percentage of respondents in each industry that have direct investment offshore.^b Percentages can add to more than 100 for each industry because individual firms can have more than one type of offshore operation.

Source: Questions 3, 14, 15.

Table C.13 **Employment size of offshore operations by main global activity**

Per cent ^a

	<i>Less than 1000 persons</i>	<i>1000 and more persons</i>	<i>Total</i>
Mining and minerals processing	44	56	100
Manufacturing	60	40	100
Construction	71	29	100
Wholesale and retail trade	100	0	100
Finance and insurance	43	57	100
Property and business services	82	18	100
Other/Not stated	75	25	100
Total	67	33	100

^a Percentage of respondents that have direct investment offshore.

Source: Questions 3, 14, 16.

Table C.14 **Regions of offshore operations by main global activity**Per cent ^a

	<i>New Zealand</i>	<i>Asia</i>	<i>United Kingdom</i>	<i>Western Europe</i>	<i>North America</i>	<i>Other</i>
Mining and minerals processing	44	56	22	33	56	67
Manufacturing	71	71	11	14	37	23
Construction	71	100	29	0	14	57
Wholesale and retail trade	89	22	0	0	11	22
Finance and insurance	100	57	43	29	43	29
Property and business services	73	73	18	9	9	18
Other/Not stated	58	67	0	8	33	25
Total ^b	71	66	14	13	31	30

^a Percentage of respondents in each industry that have direct investment offshore.^b Percentages can add to more than 100 for each industry because individual firms can have operations in more than one region.

Source: Questions 3, 14, 17.

Table C.15 **Importance of commercial factors in influencing decisions to undertake new FDI in the last 5 years**
Per cent^a

	<i>Degree of importance</i>				<i>Index</i> ^b
	<i>Nil/Low</i>	<i>Moderate</i>	<i>High</i>	<i>Total</i>	
Growth in/access to global markets	15	15	70	100	0.77
Access to lower priced material and labour inputs	74	21	5	100	0.15
Access to finance and/or lower cost of capital	83	15	2	100	0.09
Other commercial	74	5	21	100	0.23

^a The number of respondents in each category as a percentage of the number that undertook new direct investment offshore in the last 5 years.

^b See box 3.1 for an explanation of the construction and meaning of the index. The index number has 0 as the minimum and 1 as its maximum possible value.

Source: Questions 18, 19.

	<i>Degree of importance</i>				<i>Index ^b</i>
	<i>Nil/Low</i>	<i>Moderate</i>	<i>High</i>	<i>Total</i>	

^a The number of respondents in each category as a percentage of the number that undertook new direct investment offshore in the last 5 years.

^b See box 3.1 for an explanation of the construction and meaning of the index. The index number has 0 as the minimum and 1 as its maximum possible value.

Source: Questions 18, 19.

Table C.16 **Importance of Australian government-related factors in influencing decisions to undertake new FDI in the last 5 years**
Per cent ^a

	<i>Degree of importance</i>				<i>Index</i> ^b
	<i>Nil/Low</i>	<i>Moderate</i>	<i>High</i>	<i>Total</i>	
Taxation environment	59	27	14	100	0.27
Mergers law	77	20	3	100	0.13
Labour market policies	74	21	5	100	0.15
Tariff arrangements	82	15	3	100	0.11
Environmental regulation	82	18	0	100	0.09
Other	86	8	6	100	0.10

^a The number of respondents in each category as a percentage of the number that undertook new direct investment offshore in the last 5 years.

^b See box 3.1 for an explanation of the construction and meaning of the index. The index number has 0 as the minimum and 1 as its maximum possible value.

Source: Questions 18, 20.

Table C.17 **Importance of foreign government-related factors in influencing decisions to undertake new FDI in the last 5 years**
Per cent ^a

	<i>Degree of importance</i>				<i>Index</i> ^b
	<i>Nil/Low</i>	<i>Moderate</i>	<i>High</i>	<i>Total</i>	
Taxation environment	44	39	17	100	0.36
Mergers law	77	18	5	100	0.14
Labour market policies	61	35	5	100	0.22
Tariff arrangements	74	20	6	100	0.16
Environmental regulation	76	23	2	100	0.13
Other	83	8	9	100	0.13

^a The number of respondents in each category as a percentage of the number that undertook new direct investment offshore in the last 5 years.

^b See box 3.1 for an explanation of the construction and meaning of the index. The index number has 0 as the minimum and 1 as its maximum possible value.

Source: Questions 18, 20.

Table C.18 **Importance of government-related factors relative to commercial factors in influencing decisions to undertake new FDI in the last 5 years**

Per cent ^a

	<i>Degree of importance</i>					<i>Total</i>	<i>Index</i> ^b
	<i>Not relevant</i>	<i>Not important</i>	<i>Of some importance</i>	<i>Important</i>	<i>Very important</i>		
Australian factors	26	29	23	15	8	100	0.38
Foreign factors	17	21	33	15	14	100	0.47

^a The number of respondents in each category as a percentage of the number that undertook new direct investment offshore in the last 5 years.

^b See box 3.1 for an explanation of the construction and meaning of the index. The index number has 0 as the minimum and 1 as its maximum possible value.

Source: Questions 18, 21.

Table C.19 **Effect of offshore operations on measures of Australian activity over the last 5 years**

Per cent^a

	<i>Decrease</i>		<i>No change</i>	<i>Increase</i>		<i>Total</i>	<i>Index</i> ^b
	<i>15% or more</i>	<i>1 to 14%</i>		<i>1 to 14%</i>	<i>15% or more</i>		
Production in Australia	3	4	73	13	6	100	0.07
Employment in Australia	3	6	74	14	2	100	0.03
Overall profitability	4	11	34	38	12	100	0.21
Exports from Australia	0	2	62	27	9	100	0.21
Imports into Australia	1	2	86	10	1	100	0.04

^a The number of respondents in each category as a percentage of the number with direct investment offshore.

^b See box 3.1 for an explanation of the construction and meaning of the index. The index number has -1 as the minimum and +1 as its maximum possible value.

Source: Questions 14, 22.

Table C.20 **Proportion of profits from offshore activities repatriated to Australia over the last 5 years**
Per cent ^a

	<i>Proportion of profits</i>				<i>Total</i>	<i>Index</i> ^b
	<i>None/Loss</i>	<i>1 to 24 %</i>	<i>25 to 74 %</i>	<i>75 % and over</i>		
Mining and minerals processing	56	33	11	0	100	0.19
Manufacturing	40	40	9	11	100	0.30
Construction	14	43	29	14	100	0.48
Wholesale and retail trade	44	11	0	44	100	0.48
Finance and insurance	43	29	14	14	100	0.33
Property and business services	55	36	9	0	100	0.18
Other/Not stated	17	25	25	33	100	0.58
Total	39	33	12	16	100	0.35

^a The number of respondents in each category as a percentage of the number in each industry with direct investment offshore.

^b See box 3.1 for an explanation of the construction and meaning of the index. The index number has 0 as the minimum and 1 as its maximum possible value.

Source: Questions 3, 14, 23.

Table C.21 **Extent to which Australian firms have gained skills, technology and other benefits from offshore operations**
Per cent ^a

	<i>Degree of importance</i>			<i>Total</i>	<i>Index ^b</i>
	<i>Nil/Low</i>	<i>Moderate</i>	<i>High</i>		
Research and development	68	27	6	100	0.19
Production/process technologies	64	28	8	100	0.22
Strategic planning and finance	78	19	3	100	0.13
Management/administration	70	28	2	100	0.16
Marketing	68	24	8	100	0.20
Availability of foreign located personnel	60	31	9	100	0.24
Other	96	0	4	100	0.04

^a The number of respondents in each category as a percentage of the number with direct investment offshore.

^b See box 3.1 for an explanation of the construction and meaning of the index. The index number has 0 as the minimum and 1 as its maximum possible value.

Source: Questions 14, 24.

Table C.22 **Main direct investment options being considered for the next 5 years**

Per cent ^{ab}

	<i>Relocating all Australian operations offshore</i>	<i>Relocating some Australian operations offshore</i>	<i>Independent growth offshore</i>	<i>Other</i>
Mining and minerals processing	0	0	100	14
Manufacturing	0	9	95	5
Construction	0	0	100	0
Wholesale and retail trade	0	0	100	0
Finance and insurance	0	0	100	0
Property and business services	0	0	100	0
Other/Not stated	0	0	100	0
Total	0	4	98	4

^a The number of respondents in each industry as a percentage of the number that are intending to undertake new direct investment offshore in the next 5 years.

^b Percentages can add to more than 100 for each industry because individual firms may be considering more than one investment option.

Source: Questions 3, 25, 26.

Table C.23 **Importance of commercial factors in influencing decisions to undertake new FDI in the next 5 years**
Per cent ^a

	<i>Degree of importance</i>			<i>Total</i>	<i>Index</i> ^b
	<i>Nil/Low</i>	<i>Moderate</i>	<i>High</i>		
Growth in/access to global markets	9	21	70	100	0.80
Access to lower priced material and labour inputs	57	34	9	100	0.26
Access to finance and/or lower cost of capital	71	16	13	100	0.21
Other commercial	75	4	21	100	0.23

^a The number of respondents in each category as a percentage of the number that are intending to undertake new direct investment offshore in the next 5 years.

^b See box 3.1 for an explanation of the construction and meaning of the index. The index number has 0 as the minimum and 1 as its maximum possible value.

Source: Questions 3, 25, 27.

Table C.24 **Importance of Australian government-related factors in influencing decisions to undertake new FDI in the next 5 years**
Per cent ^a

	<i>Degree of importance</i>			<i>Total</i>	<i>Index</i> ^b
	<i>Nil/Low</i>	<i>Moderate</i>	<i>High</i>		
Taxation environment	34	38	29	100	0.47
Mergers law	59	30	11	100	0.26
Labour market policies	52	39	9	100	0.29
Tariff arrangements	68	27	5	100	0.19
Environmental regulation	64	32	4	100	0.20
Other	84	4	13	100	0.14

^a The number of respondents in each category as a percentage of the number that are intending to undertake new direct investment offshore in the next 5 years.

^b See box 3.1 for an explanation of the construction and meaning of the index. The index number has 0 as the minimum and 1 as its maximum possible value.

Source: Questions 25, 28.

Table C.25 **Importance of foreign government-related factors in influencing decisions to undertake new FDI in the next 5 years**
Per cent ^a

	<i>Degree of importance</i>			<i>Total</i>	<i>Index</i> ^b
	<i>Nil/Low</i>	<i>Moderate</i>	<i>High</i>		
Taxation environment	21	46	32	100	0.55
Mergers law	59	29	13	100	0.27
Labour market policies	50	41	9	100	0.29
Tariff arrangements	54	36	11	100	0.29
Environmental regulation	63	32	5	100	0.21
Other	82	4	14	100	0.16

^a The number of respondents in each category as a percentage of the number that are intending to undertake new direct investment offshore in the next 5 years.

^b See box 3.1 for an explanation of the construction and meaning of the index. The index number has 0 as the minimum and 1 as its maximum possible value.

Source: Questions 25, 28.

Table C.26 **Importance of commercial and government-related factors in influencing decisions to undertake FDI - summary**

	<i>Degree of importance (%)</i> ^a				<i>Index</i> ^b		
	<i>Nil/Low</i>	<i>Moderate</i>	<i>High</i>	<i>Total</i>	<i>In last 5 years</i>	<i>Considering in next 5 years</i>	<i>All firms</i>
Commercial factors							
Growth in/access to global markets	12	18	70	100	0.77	0.80	0.79
Access to lower priced material and labour inputs	66	27	7	100	0.15	0.26	0.20
Access to finance and/or lower cost of capital	78	16	7	100	0.09	0.21	0.14
Other commercial	75	4	21	100	0.23	0.23	0.23
Australian government-related factors							
Taxation environment	48	32	20	100	0.27	0.47	0.36
Mergers law	69	25	7	100	0.13	0.26	0.19
Labour market policies	64	30	7	100	0.15	0.29	0.21
Tariff arrangements	75	20	4	100	0.11	0.19	0.14
Environmental regulation	74	25	2	100	0.09	0.20	0.14
Other	85	6	9	100	0.10	0.14	0.12
Foreign government-related factors							
Taxation environment	34	43	24	100	0.36	0.55	0.45
Mergers law	69	23	8	100	0.14	0.27	0.20
Labour market policies	56	38	7	100	0.22	0.29	0.25
Tariff arrangements	65	27	8	100	0.16	0.29	0.22
Environmental regulation	70	27	3	100	0.13	0.21	0.17
Environmental regulation	74	19	7	100	0.13	0.21	0.17

^a Percentage of respondents that undertook FDI in the last 5 years or are intending to undertake new FDI in the next 5 years.

^b See box 3.1 for an explanation of the construction and meaning of the index. The index number has 0 as the minimum and 1 as its maximum possible value.

Source: Questions 18, 19, 20, 25, 27, 28.

Table C.27 **Importance of aspects of the Australian regulatory environment in inhibiting domestic growth by FDI status of firms**

Per cent ^a

	Degree of importance				Index ^b
	Nil/Low	Moderate	High	Total	
Moved headquarters offshore in the last 5 years or considering moving in the next 5 years					
Taxation environment	50	25	25	100	0.38
Mergers law	50	13	38	100	0.44
Labour market policies	50	38	13	100	0.31
Tariff arrangements	75	25	0	100	0.13
Environmental regulation	75	25	0	100	0.13
Other	75	13	13	100	0.19
Undertook FDI in the last 5 years					
Taxation environment	26	42	32	100	0.53
Mergers law	39	39	21	100	0.41
Labour market policies	32	50	18	100	0.43
Tariff arrangements	76	17	8	100	0.16
Environmental regulation	59	30	11	100	0.26
Other	79	11	11	100	0.16
Intend to undertake FDI in the next 5 years					
Taxation environment	36	43	21	100	0.43
Mergers law	50	34	16	100	0.33
Labour market policies	32	55	13	100	0.40
Tariff arrangements	77	14	9	100	0.16
Environmental regulation	64	30	5	100	0.21
Other	79	7	14	100	0.18

(continued next page)

Table C.27 (continued)

	<i>Degree of importance</i>				<i>Index^b</i>
	<i>Nil/Low</i>	<i>Moderate</i>	<i>High</i>	<i>Total</i>	
Other					
Taxation environment	19	46	34	100	0.58
Mergers law	66	25	8	100	0.21
Labour market policies	27	42	31	100	0.52
Tariff arrangements	81	16	3	100	0.11
Environmental regulation	56	31	13	100	0.28
Other	82	7	12	100	0.15
Total responses					
Taxation environment	23	45	31	100	0.54
Mergers law	57	31	12	100	0.28
Labour market policies	28	47	25	100	0.49
Tariff arrangements	79	15	5	100	0.13
Environmental regulation	58	31	11	100	0.27
Other	81	7	12	100	0.16

^a Percentage of all respondents in each group.

^b See box 3.1 for an explanation of the construction and meaning of the index. The index number has 0 as the minimum and 1 as its maximum possible value.

Source: Questions 6 and 10, 18, 25, 29.